The A B C's of Business

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The A B C's of Business

BY
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INTRODUCTION

Probably the greatest resource of any country is the cultivated intelligence of its people.

Inasmuch as American industry has for its object the fullest possible development and use of our country's resources, then this particular resource, being the most valuable, should receive the most industrious cultivation.

But instead of this, our situation is quite the reverse. In fact, our imperfect understanding of the governing principles of business, of how we live and are industrially organized, was one of the most amazing of the many discoveries about ourselves for which we are indebted to the World War. Our war task was rendered gravely difficult by Democracy's greatest menace—well-meaning ignorance. At every step of our national life we have been hampered and often seriously injured by the wide prevalence of unsound economic and financial doctrines, urged upon us with all the sincere zeal of half-knowledge.

As a nation we are ingenious, courageous, original and inventive, industrious, and various other

things greatly to be admired, but as to any widespread knowledge of how we are industrially organized for our national tasks, or as to any understanding of the economic principles that must govern our conduct and determine our success or failure, we have been aptly described upon high authority as a nation of economic illiterates.

It thus appears that there is a vast field of undeveloped national wealth, awaiting only the service of a higher popular intelligence and a greater intensity of interest in business, economic, and financial subjects. In what follows there is little pretense to any scientifically instructive contribution toward such education, but merely suggestive reference to and comment upon matters deeply affecting the daily life and work and welfare of all of us, upon which complete and popular enlightenment would do more to enrich us than any other of our vast sources of future wealth and national contentment.

Acknowledgment is made to Stewart McKee, who contributed the chapter on Internationalism and supplied helpful criticism and suggestion upon the remainder.

Los Angeles
October, 1921

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CHAPTER I

THE COMPLEX CHARACTER OF OUR BUSINESS ORGANIZATION

IF American business is to be understood at all, it must be viewed as a whole. And yet few of us ever see or come into contact with more than a part of it, so small as to be almost microscopic in relative importance.

It is transacted over an area three thousand by two thousand miles in extent, while each one of us goes seldom outside an area of a few city blocks. It is conducted by a population of one hundred and ten million people, whereas each of us knows hardly more than a few dozen. One man, working yesterday in his office or farm or factory, knows what he did (and may or may not understand the true significance of it). He perhaps knows a little something of what was done by a few who stood in immediate contact with him. But throughout the nation perhaps forty million people worked that day. When night

came they had accomplished a great total of mainly creative work. He knows nothing of what any of them did. And yet they were all working for one another. Each one was producing something for the use and benefit of the others. Moreover, they were all doing this in obedience to (or more likely in violation of) certain economic laws which were enacted by no legislature; which cannot be repealed; which are self-enforcing laws with severe punishments for disobedience. These punishments take such forms as the panic, the period of disaster and business depression, unemployment and the bread line. Being, as we have been called, a nation of economic illiterates, we do not understand that we brought these visitations upon ourselves, nor how we did it.

In our social and political life, governed by legislatures and the police, it is an axiom that ignorance of the law excuses no man. But in our industrial life, which is governed by far higher, simpler economic laws of world-wide application, we do not even ask what the law is. Most of us think that there are no such laws and so are unaware of having violated them, just because we do not see the policeman and are not formally accused by the district attorney.

We know that as a people we are periodically

punished in the form of hard times or lost jobs or higher prices or tight money, but we do not know what we did to deserve it. In this case, too, ignorance of the law excuses no man. The reason we do not know what we did is that as a people we never read the law. We do not know we have been violating one. We do not even know there is an economic law. We see no attorneys about who expound and practice it, and give us warning. There are some, but we do not recognize them as being such; for they are in contempt with most of us as being merely impractical theorists, who lecture at universities or write supposedly learned but very obscure books of little practical value. In addition to these, there is now and then the occasional studious business man or banker, but even he is apt to be regarded by the more hard-headed, who rely upon experience, or by the leaders of organized labor who seem to get their wisdom by inspiration, as being over-educated and a theorist. The charge that is made against these men, the economist and student, is that they have what is rather scornfully called book knowledge. Just what kind of knowledge this was before someone put it in a book has never been quite fully explained, nor how putting it in a book subtracted anything from its value.

If one could rise to an altitude high enough above the United States to bring it all within his range of vision and then view it through a glass sufficiently powerful to show the detail, he could view this country as one great industrial establishment employing one hundred million people. The thing he would see might be called the plant. It has an investment value of perhaps three hundred billion dollars. This plant, or fixed investment, consists mainly of farms, mines, factories, railways, ships, docks, warehouses, office buildings, banks, wholesale stores and retail shops, schools, dwellings, wires, pipes, and machinery. About the proper amount of each one of those things has been provided, through the free operation of the competitive principle and the right of every man to select his own occupation.

This plant has been built and is being operated for no other purpose than to provide the American people with the things they want. It was built and is operated under the government of economic law. It is the best plant in existence, with room for immense further development. It contains the greatest known stores of raw material waiting to be worked up. Its hundred million workers are probably not equaled in skill by any other body of workers of the

same size in existence. These workers produce for themselves and enjoy more of the necessaries, comforts, and luxuries than any other people. It is said that the annual output of the plant in goods would be valued at perhaps forty or fifty billion dollars. The American people usually consume all these goods which they produce in this way during the year, except perhaps five billion dollars' worth which, in one form or another, remains in existence as new wealth. Probably this new wealth finally takes the form of additions to the plant, new construction, or perhaps partly the form of debts due us from foreign countries to which we send some of the goods. The distribution of the goods that are produced is not always just and equitable, but in the main it seems to be true that this plant, like most private concerns, really seems to pay its workers about in proportion to the value of the services they render. The average American seems generally to get out of life just about what he puts into it. The world has a way of paying him about what his services are really worth.

Naturally, an organization so highly complicated as this is easily thrown out of adjustment. A state of prosperity may be said to exist when each branch of industry, working to full capacity,

is turning out just the right amount of product to serve fully the needs of other industries that are related to and dependent upon it; so that every plant and every man is fully employed and not delayed or hindered by troubles in some other essential part of the plant.

A prosperous year is one in which, with abundant crops from the farms, there was also mined the proper amount of coal to keep the boilers going in the factories, locomotives, ships, power plants, and houses; in which the wool and cotton growers furnished the textile mills with a full supply of raw materials for cloth; in which the makers of dye stuffs produced the correct quantity of dyes; in which there was delivered to the steel industry an unbroken supply of ore and coal, to enable it to build for the farms the right amount of harvesting machinery and for the cities the right amount of structural steel and industrial tools; in which all these things were done at exactly the right time; and perhaps, in all things except crops, a prosperous year is one in which our railway system finds itself adequately equipped and in sound physical condition to move promptly perhaps fifty billion dollars' worth of things from place to place, to pick up each thing where it is and move it quickly to the place where

it is going to be needed next, without keeping anybody waiting in unproductive idleness. A prosperous year would be one in which one hundred million people each did a full day's work on every working day, finding it each day possible to do so because of an abundance of tools and materials promptly supplied to each one by virtue of the fact that every other man, on whom he depends, was doing his full part.

In such a year as this the American plant might turn out twice its normal output of the necessaries, conveniences, and luxuries of life. Everything would be abundant and prices consequently lower. Everyone would be employed and consequently able to buy his fair proportion of what the plant produced. America would be called rich and prosperous. It is a state of affairs that is gradually approached as we bring the various parts of our plant into nicer adjustment to one another in obedience to economic law.

It is said that in this American plant a variation of some ten per cent in the total quantity of goods produced marks about the difference between a boom and a business depression. This variation may be quite easily brought about, as we have gone so very far in applying the principle of the division of labor that disturbances

may proceed from very remote causes. The supply of paper pulp from distant forests has been known to fall so low as to threaten to suspend the publication of newspapers. Little general anxiety was felt. Perhaps there was occasion for none, but the danger called attention to our unconscious complete dependence upon the press for many things, among them daily market reports, without which all commerce would fall into confusion, as few would know the value of anything. It seems probable that the publishing and book-selling businesses must have sustained considerable injury by the invention of so remote a thing as the gasoline motor or the motion picture camera, as these new recreations drew readers from the library to the highway or the theater.

Some of us, whose preference is for general business, employ our entire capital in that and so prefer to pay rent for the use of the premises, instead of investing capital in land and buildings. Others know nothing of business, so do their part by erecting buildings and providing housing for business and residence. If there is a scarcity of housing, tenants compete for its use by offering higher rents. These high rents attract more capital into building and thus we are soon provided with an adequate supply of housing. As we get

enough, or too much, rents come down again. This is the operation of economic law. It brings things into proper adjustment if let alone. The only way to get housing at a proper and fair rental is to pay high rent until someone provides more housing. If they provide too much, they will be punished for a while by too low a rent.

Simple as all this is, we do not seem to understand it. When more housing is needed and the natural remedy is being applied in the form of high rents, we are very likely to call the legislature together and pass a law forbidding high rents, or apply some other quack remedy that produces just the opposite effect of the one desired, so great is our national ignorance about the intricate organization of our industrial plant and the laws which govern it. If a referendum election were held (in any American city afflicted with that system of government), to determine by popular vote whether telephone rates should be reduced from, say ten dollars per month to one dollar, there is no serious doubt that it would carry by a great majority. The consequences that would follow and the lesson learned thereby fairly illustrate the American method of taking a course of study in economics and industrial organization. And it is not confined to the average voter.

A Boston banker who, every year, loans money upon the security of wool lying in Boston warehouses was recently attracted by the higher interest rate obtained by a banker friend in Flagstaff, Arizona, but upon learning that the Arizona bank's security consisted of sheep walking about for months through a vast range of mountains, he viewed the loans as simple western insanity. What he said was that back in Boston they would "just as soon loan money on a shoal of shad out in the bay." And yet he is in general a very intelligent man. He simply did not realize that he and the Arizona banker were both really in the business of producing wool clothing. They are both a part of that industry. Each knows only his trifling part of the industry, which is to extend credit against wool at a particular stage of its progress from the sheep range to the retail clothing store.

During the war there was great uneasiness in California because the people of that state were continuously paying the Government vast sums of money for bonds and taxes, and the Government was spending it all in the Eastern munition centers. California was expecting to be thus completely drained of money, and yet the opposite happened. The process afforded a perfect oppor-

tunity to observe the workings of the American industrial plant, regarded as a whole, working under that fundamental principle of modern industry known as the division of labor.

It is true, of course, that the completed guns were delivered to the Government and paid for at, perhaps, Bethlehem, Pennsylvania, and a manufacturer there received the final purchase price in money, but before receiving it he had already paid out nearly all of it for labor and material. The money he had spent for material and the money his workmen had spent for things to wear and eat had already reached nearly every state in the Union. Even what remained to the manufacturer probably went to the holders of his bonds and stocks, and these might reside anywhere. Most of what he received was paid to workmen and they spent most of it within the same week for things produced in distant places. The thing is so complicated the human imagination can hardly follow it. When an employee of the Bethlehem Steel Company does so simple a thing as use a match to light his pipe, he has spent money in numerous localities. He has paid some Northern state for the wood in the match, a Southern state for the chemicals in the match head. His clothing came from Southern cotton or Idaho wool;

his food perhaps from the Pacific Coast. Every state in the Union takes part in the manufacture of virtually everything that is produced by industry. It, therefore, turned out (though it is but little understood) that California got part of its bond and tax money back again by selling beans to a miner in Arizona, who produced copper that was finally turned into a shell casing at Bridgeport. The important fact is that, under the principle of the division of labor, we profit most by producing those things we can produce with the greatest economy and abundance.

The simple fact is that American business is nothing but the work all of us are performing every day, each according to his choice. In doing this work we have only one purpose: namely, to produce food, clothing, shelter, and some additional conveniences, decencies, and luxuries, and to divide and distribute these among ourselves and live upon them while producing more. Naturally there is nothing to divide and live upon except what we currently produce; unless we choose to divide and consume the plant itself and thus restore America to the condition in which Columbus discovered it when inhabited by Indians. The natural resources of America were as great then as they are now. We live better than the Indians

only because we produce more. We produce it from the very same sources, but we have increased the output partly by building up a great mechanical plant (the investment of capital) to do most of the work, instead of merely using our naked hands, and partly by training each man to produce one thing only, in great quantity; relying upon others to supply him with everything he needs in exchange for his own output.

In its simplest terms we might imagine a great national market place, to which each man goes and deposits there the thing he has produced in great quantity, satisfying his own needs by carrying away a small quantity of each of the innumerable things that others have brought. Most of the confusion of thought about business seems to have begun when we gave up the simple practice of barter at the market place and passed into the more modern and complex usages of commerce. At that time we invented a new standardized tool known by the name of money, and its purpose was to facilitate our exchanges. We stopped trading things for other things and began trading things for money and the money for the other things. We thus got to thinking and talking of everything in terms of money. We are still bartering things for things just as essentially as

we always did, but because we never see but half of the complete operation—money standing always in between—we have lost all realization of the simple truth that we are still trading things for things and that money is a mere tool, and we have come to regard it as an end in itself. And, to make matters worse, money, like most other inventions, has had improvements made upon it in the form of paper tokens, credit instruments, and bookkeeping entries which are used in place of it, and these have still further disguised the real nature of money and obscured the truth about our real transactions. The essential and important thing about it all is that we simply produce goods and services and trade them for other goods and services, and we can only divide among ourselves in this way what our united efforts have produced. We have national prosperity or poverty as we produce much or little.

The thing that has distinguished America as an industrial country is the great abundance of its production of wealth in proportion to its population. Aside from certain personal qualities, such as inventiveness, resourcefulness, and adaptability, inherited from Americans who, for several generations, developed those qualities by pioneering the wilderness that lay west of them, this

great productive power per inhabitant is due to the unequaled extent to which we employ tools, machinery, and equipment. No other nation utilizes so many mechanical horse power per man.

Billions of tons of freight and endless passengers require to be moved from place to place, and the performance of this task, of indescribable magnitude, by the two million men who are employed in the railway service, has been made possible only because for each man so employed we have invested ten thousand dollars in railways; yet so little do we heed the significance of this that our popular attitude toward this twenty billion dollars of railway capital is one of resentment and hostility, and we normally starve it into a state of dilapidation.

This, then, is the highly complex and delicately adjusted business organization we are operating in America. When it gets out of adjustment and slows down, as all complicated machinery does when out of adjustment, few understand what has happened, what may be expected to happen next, or what to do about it, and there is much suffering. Notwithstanding such examples as that of Russia, which would certainly seem to carry adequate warning against hasty and radical attempts to alter the existing social and industrial struc-

ture, every period of temporary industrial distress brings forward well-meaning proposals of unsound economic, financial, and political doctrines. Their enactment into laws is urged with all the zeal and courage of ignorance. They are gravely dangerous because of the very sincerity of their well-intending advocates. They are utterly incurable except by education in business, in economics, in sociology, and in government.

CHAPTER II

THE MISUNDERSTANDING OF MONEY

Probably no single thing has done so much to confuse and bewilder ideas about business as the misuse of the word money; and not merely the misuse of the word, but misunderstanding of the real nature of the thing itself and its place and use in industry.

It is the habit of almost every man to consider himself a free and untrammeled creature, working quite independently at some monotonous occupation which he has chosen in exchange for money. The business world for him ends there. With the money he goes out to buy things from strangers. The doing so seems to him a separate act, being in no way a part of his own business occupation. The fact is, however, that in buying those things he is merely being paid for his own work. He is simply in the act of collecting his real wages, and finding out how much he was actually paid. He helped to produce all those things and is now being handed his share of what all joined in producing. He thought he had been paid when the

money was handed to him, but he had not been. He did not even know when he received the money how much he was being paid. He only learned the amount of his real salary when he finally had it handed to him in goods. The money that he was temporarily carrying was only a token that entitled him to go to various shops and places and collect his real wages. His real wages were just his fair proportion of all the various goods we had all joined in producing. If we as a nation produced much, he received much. If we only succeeded in producing a little, or if we wasted a great part of it in war or foolishness or incompetence, then his share became less. The amount of money was just one of the tools used in industry. It was a kind of conveyor upon which his real pay was carried to him from the grocery store, from the picture theater, or from the doctor's office.

He could elect to take his pay in anything he pleased: food, clothes, amusements, services, or he could save his money and decide later, but sooner or later he is paid in things—not in money. The fluctuations that have taken place in prices make this plainer than it used to be. The man always speaks of his occupation as if it were a thing by itself and the aim and end of it all were

to exchange it for a fixed amount of money. The fact is that the man is really taking part in the production of nearly everything. If a banker loans money to a baker to buy flour, then the banker is really producing bread. When the physician restores the health of a temporarily sick butcher, he is not practicing his dignified profession above the level of the common world; he is at the moment producing meat, and so is the carpenter who built the counter in the butcher shop. Of course the surgeon and the carpenter cannot be paid directly in meat, nor the banker in bread. To meet this difficulty, we have gradually evolved and adopted the practice of distributing little metal and paper tokens, and we call them money and have certain agreements and practices about receiving them from one another in exchange for goods.

The next great source of confusion about money is our loose use of the word, our failure to understand what money is and where it comes from. Strictly speaking, the only money in America is gold (a limited amount of silver, unimportant, however, for the purposes of this discussion). Of this gold there is perhaps three billion dollars, and most of it lies in bank vaults, for the sole purpose of being used to pay deposits or

notes in case anybody really wants them paid in actual gold. The gold, in other words, is held in reserve for this purpose, and so these great stores of it have come to be spoken of as bank reserves. The gold used in this way renders the country a money service probably ten or twenty times as great as it could render if it were in circulation from hand to hand. Prior to 1914 this gold reserve was subdivided among about twenty-five thousand banks in the United States. Since the creation, in about that year, of the Federal Reserve System, each of these twenty-five thousand banks (except a few which are not members) has deposited its gold in the nearest Federal Reserve Bank, of which there are twelve, with branches. It is still just as available to the banks as before they did this and by doing so they have multiplied its effectiveness. So that there is a great store of gold in the vault of each Federal Reserve Bank.

The relation between a Federal Reserve Bank and the surrounding banks in its district is practically the same relation that exists between any bank and its customers. That is to say, a bank carries a balance on deposit with the nearest Federal Bank and also borrows from it, if need be, by rediscounting its customers' notes at the Fed-

eral Reserve Bank. This banking machinery so arranged undoubtedly constitutes the most perfect and highly developed banking system in the world; also the most powerful in the service it can render.

It is practically true, then, that the only real money in the country is gold and its amount varies but little except when it is imported or exported in settlement of trade balances with foreign countries. Everything else that we speak of as money is in reality only bank credit. The amount of this is very great. It can be created to any extent necessary, subject to the limitation that it must not be created beyond the ability of the gold reserves to redeem it upon demand. It exists in two forms, bank notes and bank deposits. They differ only in form. They are the same thing in substance and are interchangeable. Banks bring it into existence by the process of making loans. The borrowers to whom the loans are made put it out of existence again when they pay the loans. If a baker needs to buy $10,000 worth of flour and his bank balance is exhausted, he borrows that sum from the bank. The prevalent idea of this transaction seems to be that the banker loans him a particular $10,000 which he happens to have about him, probably having been recently brought

in in money by some opulent depositor. The thing that really happens is that the baker signs a promissory note for the amount and the banker makes two bookkeeping entries. He charges "Bills Receivable," meaning that the note has now passed into the bank's assets, and he credits "Individual Deposits," meaning that he has placed the amount of the note to the credit of the baker's account. By those two entries the bank's loans increased and its deposits also increased, each by the sum of $10,000. There was no money used in the transaction; nothing but ink. The bank deposits went up. The baker now speaks of having money in the bank. It is not money; it is bank deposits or bank credit. The circulating medium in this country is not money; it is bank deposits. It is created as in the last transaction. It circulates by the use of the bank check. The baker hands his check for $10,000 to a flour miller for flour and his bank's total deposits go down $10,000. The deposits of the miller's bank go up $10,000. During the ensuing month, the baker sells bread and every day deposits in his bank some checks given to him for bread by retail grocers. When his balance is finally built up about $10,000, he pays his note by giving his bank

a check for $10,000. By this transaction the bank's loans have gone down $10,000 by the surrender of the note, and its deposits have gone down $10,000 because in paying the note the baker reduced his balance by that sum.

By such transactions as this do bank deposits rise and fall. Men see them rising and marvel at where all the money is coming from. There is no money involved in it. It is only the banks creating for the use of business men new supplies of credit that did not exist before. If they need it in the form of what they call paper money, or currency, for perhaps payroll or cash drawer purposes, it is all the same. The bank, instead of crediting the sum to the customer's deposit account, hands him bank notes instead, but it is the same kind of bank credit in substance. It is created as needed and retired again when, after having circulated from hand to hand until it has served its purpose, someone brings it in to the bank and deposits it to the credit of his account. By this latter act it ceases to circulate as notes and is transformed into deposits. The amount of bank deposits and the amount of bank notes in circulation rise and fall according to the requirements of business. These are not money, though

we all so call them. They are redeemable in money on demand if desired. Their limit of total expansion is controlled by the amount of gold in the reserve banks.

Now in consequence of this misunderstanding about money, a strange thing took place among the American people in consequence of the war financing. By reason of the vast war transactions, principally by the Government, an unprecedented amount of bank credit was created. The Government expended it in purchase of goods and services, and thus it passed into general circulation. Being in possession of so much money we quite naturally felt that we had become rich (money being our popular conception of riches) and we spent it accordingly. The fact was just the opposite; instead of growing rich we were becoming poor. We were vaguely conscious of a diminishing supply of goods, as they were absorbed into the waste and destruction of war, but that was not so plainly seen as was the abundance of money. Our real wealth was being destroyed, but so long as money was plentiful we were not only complacent but actually extravagant. The waste of war has cost America tens of billions, not in money but in true wealth. We, as a people, are in consequence poorer by that amount. But

the excess of mere money that was given to us in exchange for our goods and our services so obscured the fact that we do not completely realize it yet.

CHAPTER III

WAGES AND WEALTH

Regarding the distribution of wealth, there seems to be need of a clearer understanding, to be derived from looking at the essentials rather than at the mere appearance. Our present national state of mind seems to include the sincere belief that the products of industry are not being justly apportioned between those who own the plant and those who work in it. We think the wages of labor should be greater and the returns upon invested capital less. (Naturally, if one is to be greater, the other must be less, since we cannot divide more than we produce.) So far as can be discovered, this belief is more a matter of sympathy than of reasoning and calculation.

Nothing need be added to what has been already said to the effect that wages are really paid in things, not in money. The pay envelope or the salary check may not be exchanged for goods at once, but until it has been the holder of it has not yet received his wage and does not even know how much his real wage is to be. His

true wage, in the only form in which he can use it, consists of just his proportion of what we all produce by united effort. It is increased or diminished accordingly, as we produce more or less. It is handed to him in the form of money, so he can choose the particular things in which he wants the world to pay him. Money is merely one of the tools of industry, like a monkey wrench; to be picked up and used temporarily. It is only used in accomplishing the exchange of things, or labor, for other things or other labor, and then passed on to someone else who will use it next. The whole question is one, not of money, but of goods. Our whole end and aim in industry is to produce goods and divide them among ourselves. Our proportion of the goods produced is our wage. Naturally, these wages can be increased only by increasing our total production of goods. We cannot divide more than we have.

But it is claimed that in the division, the proprietor of capital, the owner of the plant, receives too much. Some of us object to much profit going to him. Good salaries to the superintendents, yes. Perhaps a very large one to the general manager, who plans and directs it all. But what to the proprietor, who merely owns it? If he gets too little, most of the capital invested

in the plant will be lost and destroyed just as completely as war destroys it. If his plant is not allowed a fair profit, it will be abandoned and cease to produce wealth. No one will operate at a loss. If he gets too much, alert competitors will do everything necessary in the public behalf. But if one or the other must happen, it actually seems far more to the public benefit that he should get too much. Suppose he receives every year a very vast income in money. What is the economic function of the capitalist in our industrial system? He cannot personally consume much of the country's goods. He eats and wears probably a little more than the rest of us. He wastes the services of a man or two in driving a car for his pleasure and beautifying his garden; also the services of a couple of women to prepare his food and keep his house in extra nice order. A little more wealth would perhaps be produced and we would all be richer if the man waited upon himself and released these employees to become producers on farms or in other creative industry. That, however, is nearly the limit of his wrongdoing. In that way he may obtain possession of, and use up, a little more than one person's share of the forty or fifty billion dollars' worth of goods and services that we all (including him) united in pro-

ducing. That is about as far as Nature makes it possible for him to go, and most of his vast income is still unspent. It may be that this man ought to live after the style of a penitent monk and make his life a drab and cheerless period of frugality and self-denial. The rest of the world would be a little richer by the saving of what he wastes.

But even in the very heaping upon him of this enviable abundance of enjoyment and benefits, it seems that Nature has served a beneficent purpose. Desire for these very things, kept alive by the daily reminder that they are within reach of the successful, is the main force that drives forward human progress. If it were the custom for the successful to live on a meager diet in dark tenements, ten million eager young American men, whose promised achievement is the sole hope of our future, would turn their backs upon all thoughts of success and embrace idleness. In view of these things, it is rather remarkable that some legislature has not repealed this law of Nature. As a people, we would be likely to carry at the polls by an overwhelming majority a referendum prescribing hovels and rags for the successful and forbidding enjoyment except as the reward of failure.

In an ideal society, such as may be attained in

time, the possessor of great wealth will probably live, as many now do, in enough comfort and enjoyment to serve the useful purpose of incentive to success among the rest of us, but without abusing the privilege in the offensive manner practiced by so many of our rich of the less cultivated and enlightened type.

Our widespread resentment against the capitalist, on account of his all-too-frequent abuse of personal power and privilege, has so confused our ideas that we include in this resentment the very institution of capital itself, and as a people we retaliate upon capital (a thing) because we dislike the occasional capitalist (a person). This very confusion of thought upon the subject seems to be the cause of most of our disputes about capital and labor. To most of us the word capital merely suggests the brutal-looking individual pictured in the familiar newspaper cartoon. He is but one of the temporary phases in our great industrial progress; acting that way only until he learns better, and doing that very rapidly.

The word capital ought to suggest to our mind no individual at all, but something like a railway, a merchant vessel, a telephone system, a factory building full of machinery, a harvesting machine, a steam shovel, or a screw driver.

But why should all the capital be owned by a few men? In the first place, all that they own is but a trifling part of the vast quantities that have been produced. The rest of our enormous production we have consumed or destroyed as we went. The capital now in existence, even great as it seems, is simply the relatively small remainder that we, as a people, have preserved. It is in the hands of those who now hold it for various reasons. The largest of them are trustees we have appointed for the purpose, such as life insurance companies and savings banks. Every holder of an insurance policy and every depositor in a savings bank is a capitalist, none the less because he wisely leaves the management of his capital to the company or the bank. So is every owner of a farm, a home, or a mortgage, of a stock of merchandise, a bond or a share of stock, a motor car or a set of tools. The stockholders and bondholders of our railroads, banks, and business corporations are numbered by the million. Some of our railways are said to have a greater number of stockholders than employees. Their stocks and bonds, deeds and mortgages, pass books and insurance policies, are merely convenient forms of title papers which evidence the ownership of capital itself.

We are a nation of capitalists, yet hating a thing we picture to ourselves as "capital"; hampering it at every step because it has come to be represented in our mind by the occasional millionaire with rude manners, foolishly extravagant habits, and a tyrannical disposition to misuse his power. Millionaires of this type do exist. People exactly like them by nature are also just as numerous in most other branches of society. But the flagrant and objectionable thing about the capitalist is that he owns the plant and derives a very great income from it.

There are those who claim he is not entitled to this income in the first place. If so, then it should be distributed, upon some just principle, among the rest of us. We are reliably told by statisticians that, if this were done with all the large incomes in America, the average person would receive but a trifling pittance. So that even if we were entitled to have that done, it would not benefit us appreciably. Being a small sum for each of us, we would, of course, spend it, with rare exceptions.

But failing to distribute his surplus income in that way, the capitalist must find some other disposition of it. Being like the rest of us, his natural impulse will be to try to make more money

with it. This will generally take the form of loaning it to whomever will pay him the most interest for its use. The man who can afford to pay the most for it is necessarily going to be the man who can make it produce the most. Generally speaking, that will cause it to be employed in producing something the world will pay a high price for, just for the very reason that that particular thing is at that moment the world's greatest and most pressing need. Therefore, the natural motive of private selfishness on the part of the capitalist causes the world's surplus capital to be applied where it will do the world the most good. It was new capital, created and left unspent during the preceding year. It was saved by the capitalist, just because there was no way in which he could spend it. He loaned it to a man with ideas, courage, and enterprise, who built with it perhaps a new factory that did not exist before. This factory then began to produce new goods that could not otherwise have been produced. It competed with older factories for the services of workmen and probably raised their wages in order to get them. It reduced the cost of living by increasing the quantity of goods.

The capitalist, in all this, seems to have done no harm and to have been the innocent and unsus-

pecting tool of a great natural force, of which he was not even aware. When asked what he did with his income, he probably did not fully realize that in obedience to a natural law he had put it back into the enlargement of productive industry; he probably just said that he bought bonds with it. That was the form it took to him. He does not know it, but in reality organized society has gradually evolved him and set him up as an institution for providing ourselves with more machinery and tools with which to produce wealth.

Now why could not all his income have gone to the rest of us or to the workmen, and still have been invested in the bonds just the same, but thus permitting the bonds to be widely owned among us all, instead of so much of it going to one? If that had been done and every one of us had saved the trifling sum we thus received and had bought the bonds with it, then it is true that we would have reached the happy situation all sympathetic people hope for in behalf of labor. But the amount coming to each of us would be so small we would surely consume instead of saving it. Virtually none would be saved. Hence no new capital would be created. Hence industrial progress would cease. Stagnation and decay would follow. The production of goods would decline,

prices rise, and poverty ensue. To be sure, we would all have received for one or two years this trifling increase in our yearly income and would have enjoyed spending instead of saving it, but what would that avail us when we saw our whole industrial plant, railways, factories and all, decaying into unproductive ruin for lack of the capital no one had saved? In other words, our industrial life will decay into ruin if new capital is not continuously put into it. The only new capital obtainable is what may be saved out of our total current production of wealth as we produce it. Most of us consume our entire share and will not save. A very high authority recently said, in substance, that if the two million railway employees in America, who receive about fifteen hundred dollars per year each, would set aside fifty dollars each, they could, with the total so saved, buy a controlling interest in the outstanding capital stock of the New York Central Railway System, and if they would each save fifty dollars per year they could, in five years, buy a like control of all the railway systems extending from Chicago to the Atlantic seaboard. No one expects them, however, to do this, or to save at all except in rare instances.

The capitalist is the fruit of our industrial ex-

perience. He is the only contrivance, except the savings bank and the insurance company, by the use of which we have succeeded in accumulating much capital; and it is only by obtaining and using capital that we have risen out of the cave and the wigwam. It has been proved that the only way we, as a people, can save enough capital to insure the continuance of our industrial life is to put so much income into the hands of one man that he cannot consume or destroy it, and thus cannot help saving it. After saving it there is no place it can go except into industry. In this way we get it saved, which is the important thing to America as a whole. Just who saves it does not matter much. Saved and employed in productive industry, it serves all of us about equally well, no matter who owns it.

The obstacle, then, to an equal distribution of wealth is simply our lack of intelligence and thrift. Wealth drifts into the hands of the few because the many will not save it, even if paid to them. In the hands of a few, it is actually saved because there is no way for them to waste so much of it. In this way the drifting of great wealth into the hands of a few is really the only thing that saves us from industrial ruin. It seems to be a scheme contrived for us by Nature, because it is fool-

proof. It is not perfect. It has abuses. We have not succeeded very well in correcting many of them by law; perhaps Nature will correct even those for us in time. The system has worked well. Upon it we have become a great, rich, powerful, moderately contented people. Until the war all classes of us have been steadily becoming better off, as we have perfected and enlarged our industrial plant and made it produce more and more goods for our consumption.

After all our abuse of the capitalist, we shall some day learn that he is an innocent part of our highly complicated organization, put there by Nature to render us a useful and valuable service. If we destroyed him or any other essential part of our industrial machinery as it exists, we would come to dire grief, just as they have done in Russia. The existing system, if let alone, will slowly but steadily benefit us all. Some day we shall come to understand it, and when we do we can make it far more productive. This view may be mistaken as being a plea in behalf of capital and against labor. It is just the opposite of that. It is a plea in favor of the greatest possible accumulation of capital for the use and benefit of labor, by the only method that can be employed until labor has learned to save and to invest.

As opposed to this view, there is set up, by champions of the supposed cause of labor, merely a blind demand for more wages. Probably all right-thinking people cordially desire that labor shall receive more wages; but proposals to pay them by depleting our capital, already heavily depleted by war, are simply proposals that we shall eat up our tools and machinery and go back to producing with our naked hands. They are proposals that rest merely upon sympathy for labor, and it has been wisely observed that sympathy without understanding is always ineffectual and usually injurious.

A demand for increased wages does not merely raise a question between the employee and his employer. It is really a demand made upon all of us, that this particular employee shall receive a larger proportion of what the entire American business organization produces, though it calls upon his particular employer to get it for him. The employer can do this only by trading off the goods he makes for a larger quantity of the kind of goods the rest of us make. He does this by raising his price, because money has to be used in doing it and so it all has to be expressed and talked about in terms of money. But the claim is that the employer should not raise the selling

price of his goods, but should pay increased wages by correspondingly reducing the amount which he has been receiving as interest upon the capital invested in his plant.

No one wants him to get too large a return upon the capital invested in his plant and if he tries to and succeeds for a while, the economic law will punish him for it. He cannot possibly conceal from an alert world the fact that his business is yielding attractive profits, and enterprising investors will promptly enter the same business to secure them also. It is a fortunate law that draws capital where the most can be earned upon it, because, in the long run, that results in its being employed in industries that are the most productive of new wealth and withdrawn from those which, producing the least, are of the least public value. Perhaps two or three new establishments, in addition to the one that is making too much profit, might suffice to furnish enough competition to bring the profits down to normal, but when two or three discover the opportunity perhaps twenty or thirty do also. They all consequently enter that particular business at once, and competition among them to make and sell the same commodity forces down the price of it, and so the abnormal profits the original employer had been

making are taken from him. And when his competitors entered the business and had completed their buildings and installed their machinery, they cast envious eyes upon his experienced employees and got them by paying them the increased wages which they knew the abnormal profits of the business would make possible. Especially was this true of the employees who were conspicuously worth the most by virtue of intelligence, character, and industry.

The natural laws of industry, under which our entire nation has been gradually built up to its present greatness, are apparently so comprehensive that they in due course invariably compel every man and every industry to pursue a course that is in the interest of public welfare. As a people, we are slowly beginning to perceive this and to grant ready approval to the new slogan, "He profits most who serves best."

Suppose, now, that our employer, unable justly and fairly to raise the selling price of his commodity, nevertheless timidly yielded to the demand of his employees for higher wages—a demand upon him that was unjust because it took away from him a fair return upon his actual and real capital invested in his plant. He would consequently be unable to pay the usual dividend

upon his stock, or perhaps even the interest upon his outstanding bonds. The owners of the stock would see it fall at once in public estimation, or market price, to perhaps a fraction of its former value. The savings bank or life insurance company which had bought his bonds (these institutions being the greatest of all investors and simply investing funds they hold in trust—perhaps, among others, funds of his very employees) would also feel an immediate loss upon them of a substantial part of the investment. Having defaulted in the payment of interest upon his bonded debt, the employer's credit, at his bank and elsewhere, would be at once destroyed and, being deemed unsafe and so deprived of credit, he must reduce the output of his business down to a volume he can pay for with his actual cash. On so diminished a volume of business, his cost per unit of product would be increased and his losses thus become greater. The employer having defaulted in the interest upon his bonds, the bondholders would, of course, foreclose their mortgage upon his plant. The value of his capital stock would thus be wholly wiped out as a complete loss. The plant, having been proved unprofitable and hence worth little, would be sold under foreclosure. The bondholders would receive only what the plant

sold for under foreclosure and thus sustain a partial loss. The plant, being proved incapable of earning a profit, would be closed, for of course no one would operate it for pleasure or just to produce losses. This being plain to everyone, it would have been bought at foreclosure sale by a speculator in junk who would sell the machinery for scrap and dispose of the building to someone for a warehouse. The employees, who had thought capital ought not to receive a just return, would be seeking employment elsewhere, perhaps to do the same thing again, because about this chain of events they had not the slightest understanding.

Suppose, now, that the invested capital in the plant received a large return, large enough to give the employer high credit and yet not large enough to excite the cupidity of others and attract disastrous competition. Being successful, and so having the confidence of the public, of the investors and of his bankers, he could give to the business (and to the world) many benefits. He could borrow new capital on favorable terms to install better machinery or to enlarge the plant. He could secure ample credit at low discount rates to carry on a large volume of business. Having by these

methods lowered the cost per unit of his product, he could render the highest of all business services, that is, to serve the world with more and better things at less cost. By a perfectly wise and just apportionment of what he had thus saved, he could do this and also distribute higher wages and increase his own profits beside.

America is well provided with men who possess sound ideas and meritorious plans which are lying unutilized. Vast projects which, if realized, would be capable of producing much wealth and of furnishing abundant employment for labor, lie dormant. The reason usually assigned for our failure to carry such projects forward is that we cannot get the money. In truth there has been no scarcity of money (using the word in the ordinary sense) but recently rather too great an abundance of it. The thing really needed and really scarce is capital. It is capital of which we have not enough, because we have not saved any considerable part out of our immense annual production. It is for lack of capital that the whole world stagnates, and yet we hear constant clamor for dividing the little that there is among workmen in increased wages to spend.

America, just because it among the nations pos-

sesses capital in comparative abundance, is glorified throughout the world as the only rich and prosperous country. Europe (though flooded with the thing we call money) is destitute, because its capital has been dissipated by war and waste. We are called upon by all the world to loan it capital and yet we ourselves need infinitely more than we have. Had we but sufficient capital in the form of tools, factories, power plants, and current wealth seeking investment in more of such equipment, new enterprise would spring forward and we could produce such an annual abundance as would give every workman high wages indeed, in the form of better, cheaper, and more plentiful subsistence.

But instead of seeking relief properly by conserving our capital, we do the opposite. In a futile attempt to stimulate industry, we encourage the undertaking of unnecessary and often unproductive public expenditures by states and municipalities, as being a good thing to do during hard times by way of furnishing employment. If the mere furnishing of employment were the goal, men could be employed to swing Indian clubs, but it should hardly be done in preference to swinging hammers in productive industry; and yet we deliberately impede our own progress toward eco-

nomic recovery with vast offerings of state, municipal, and other public bonds, to compete in the market for capital against productive industry, which is starving for the lack of it.

CHAPTER IV

THE ELEMENTS OF BANKING

UNTIL recent years, banking seems to have been considered purely a private enterprise, conducted principally for profit, after the manner of private business in general, little regard being paid to the idea that a bank owed any duties to its customers other than to be honest, to publish true statements of its condition, and submit to government examination. The more modern view seems to be that banking is a public service. This being undoubtedly the correct view, it seems important that the nature of the business should be more widely understood and the obligations of banks and customers to one another more clearly defined, and that every customer of a bank should fully understand what service he and the other customers are now receiving and have a right to expect from the bank; and also, what the bank's rights are. This is all pretty well established by customs which are the outgrowth of experience, but they are poorly defined at best and the reasons for them are not universally understood.

The operations of savings banks are much simpler than those of commercial banks. In reality, a savings deposit should be classified as an investment rather than as a bank account. A savings bank is not so much a bank, in the broad sense, as it is a standard public investment. The wise investment of money is an art which few live long enough to learn. The average investor has to deal with small sums, in odd amounts, and at irregular intervals. He is without experience or education in the selection of investments and, too, there are almost no suitable investments for such sums. In trying to find them the investor usually loses at least part of the money. It may be said that he buys experience, but without buying enough of it to do him much good. The savings bank affords him an immediate investment for any amount, large or small, even including the odd cents, and it bears interest from the date of deposit. It is a safe investment, requires no investigation or study, pays almost as high an income as the very highest grade of investments pay the world over, and can be converted into money upon reasonable notice, and without loss or shrinkage.

To maintain an institution that affords the public this kind of an investment for its savings as they accumulate, is a sufficient public service, and

the savings bank's duties to the customer end here. The permanent nature of these savings deposits and the necessity for paying liberal interest upon them, allow, and even require, that the bank shall place them in investments of a rather permanent character, and it necessarily results from this that the depositor could not reasonably expect to withdraw his deposits (even though occasionally allowed to do so in moderation) without giving ample notice; and neither should the savings depositor consider that, in addition to receiving interest, his deposits in a savings institution give him any implied or preferential right to borrow from it or expect it to perform other services for him, such as paying his checks, keeping his accounts, or collecting his debts.

The commercial or business bank is a totally different style of institution. Its relationship to the community and its customers is far more involved, more intimate, and not so generally understood, and must needs be discussed at greater length. It is the kind of institution people have in mind who speak of banking as being the handmaid of commerce. It is more often than not the familiar thing we know as a National Bank. Its office, in our scheme of business organization, is to supply credit required temporarily in trans-

forming one kind of goods into another kind and in transferring goods from one owner to another one. From an economic viewpoint, the service of a bank (meaning always a commercial bank) is not unlike the service rendered by a railway. It furnishes credit on which goods are carried for short periods.

Most of the confusion of thought about banking, of which there is a great deal, is due to the way in which we use the word "money" when we really mean credit. One speaks of his bank balance as money in the bank. It is not money; it is a debt the bank owes him, payable in money if desired. It is, strictly speaking, bank credit. If he draws it out and is paid in bank notes, those also are bank credit. Bank deposits and bank notes are entirely alike in substance and effect. They differ only in form. Neither one of them is money. Correctly speaking, the only money there is in America is held in reserves to redeem the National Bank notes, Federal Reserve notes, and bank deposits, which are our real circulating medium. These latter are all credit instruments. By creating them and using them as money, we find it possible to provide ourselves with all the so-called money our business uses require. We can create as much of it as necessary, if we do not

expand it too much in proportion to our gold reserve. It circulates freely among us at par, because we know it can and will be redeemed in gold if desired.

Bank credit, then, is really the principal circulating medium of exchange. Its destruction would entail consequences impossible to imagine. Even a slight contraction of it (the condition commonly spoken of as tight money) threatens a business convulsion. Banks create it by exchanging their own credit, which is good anywhere, for their customers' credit, which must be good but is so little known that it will not circulate. The customer's credit is simply converted into bank credit by an exchange of papers and a book entry. The customer speaks of this bookkeeping balance, created in this simple way, as money in the bank. Inside the bank, however, the language is different. The thing the customer calls "money in bank," the banker calls his "deposit liability." To him it is not money, but a debt he must pay whenever the checks are presented. He must not create too much of it. He cannot go on increasing it indefinitely. The limit is fixed by the amount of real money that can be kept in the bank reserves. This limit is severely contracted, whenever the timid and the ignorant draw gold from

the bank and hoard it or use it in circulation. It can be increased only by depositing more coin in the banks, or by contriving improvements in the banking system that will make the cash reserves more efficient and capable of supporting safely a larger amount of bank credit.

Exactly the latter was accomplished by the establishment of the Federal Reserve Banks. In a general way, these institutions do for the national banks just what the banks are doing for their customers. They thus greatly increase the banking power of the entire system. They hold most of the cash reserves of the country and thus make them always available where most needed, so that a bank which has for the moment a heavier credit demand than its reserves will support can convert some of its loans into reserves at the Federal Reserve Bank until the pressure is relieved.

The banks of a city lose deposits when the people of that city are buying from the outer world more than they are selling to it, and consequently paying out (through their banks) more than they are taking in; or, in other words, when the balance of trade, or money movement, visible and invisible, is against that city. The balance of trade or money movement against a city must be paid by the banks of that city out of their reserves at the

Federal Reserve Bank. Formerly (before the Federal Reserve Act) this loss of reserves compelled them to shrink the amount of their loans. This resulted in what is called tight money in that city. Money being tight (that is, borrowers unable to obtain bank credit) business men were compelled to restrict business activities which involve expenditures and purchases; and when, in consequence of this, the purchases from outside the city had been sufficiently reduced so that the balance of trade turned again and became favorable to the city, the lost reserves came back to the banks and they were then enabled to again expand their credits by making new loans. All this was unnecessary and highly injurious. It was simply due to our former inadequate banking laws. In contrast with such conditions, the great benefit of the Federal Reserve System becomes easily evident as the banks of any city, if they are members of the Federal Reserve System, are now able to tide over a temporary, or seasonal, unfavorable trade balance of this kind by temporarily rediscounting some of their paper at the Federal Reserve Bank, thereby replenishing their reserves out of the immense reserves the Federal Reserve banks hold for just such purposes, and thus are able to avoid subjecting the entire city

to the evils of a sudden contraction of the circulating medium. From this it is apparent that each bank is compelled to see that the loans it makes to its customers, so far as possible, are of a kind that will be eligible for rediscount at the Federal Reserve Bank.

It is said, then, that banks constitute, or render, a public service. They create and furnish to the public a circulating credit more useful and convenient than money and several times greater in amount than the total money supply of the country. A customer obtains this credit from his bank by exchanging with the bank his own note for the bank's credit, in the manner described. To become entitled to this privilege, he must establish his own credit. He must satisfy the bank that his own note is good, and otherwise do his part in strengthening and supporting this entire credit system. The very foundation of the customer's credit is knowledge by the bank that he is the kind of man who, if he gives his note or promise, will certainly perform it. It rests, in other words, upon character, without which, of course, no credit can exist. He must next satisfy the bank that he not only intends to, but is able also to, pay; and not merely pay sometime, but pay when the note is due. This is partly accom-

plished either by depositing security with the bank or giving it a correct detailed written statement of his business condition and the nature of his business operations. It is even usual now that this statement shall be certified by an independent auditor or accountant.

But even to customers who meet these requirements, the bank can only extend a total credit which is limited by its total cash reserves, and these can be increased only by actual money which comes to the bank from newly coined supplies, from other cities, other banks, or from private hoards; and being thus limited, the bank must so deal with all its customers as to make its total available supply of credit go around among them equitably. No customer, then, should be allowed to borrow more than his fair proportion. This is measured by what he does to support and assist the bank. The simplest evidence of this is, of course, the amount of the average balance he keeps on deposit, but it is also tested by the promptness with which he pays his loans and the extent in general to which he aids the bank in developing its own strength and banking power.

In a rough way, then, the bank can extend credit to customers about in proportion to what they do to support and maintain this credit structure. The

homely and practical expression of this is to say that the banks can best help those who help the banks. There is one further qualification. The bank can safely and properly loan the most to customers who borrow for the shortest time. The usefulness of bank credit is greatly increased when it is borrowed by a customer who uses it to serve a temporary need and promptly repays it to the bank, to be used in turn by another customer, so that a given sum is used by several different customers in succession in the course of a year. Deposits created out of loans of this character are responsive, elastic, and serve the whole community. A permanent standing loan of bank credit to one customer is something like cash hidden in a safe deposit box. It is withdrawn from useful circulation; it impairs the usefulness of the bank and prevents it from serving its other customers. A bank cannot create a line of satisfactory, elastic, circulating credit out of a sodden mass of long time, or sleeping loans. The bank, then, in order to be of the highest usefulness in the community, must extend credit to the customer who is known to be of high character, who is amply able to pay when due, who does not try to borrow more than his fair proportion or for too long a time, and who does his full part in coöperation with the

bank and strengthening it as a vital agency in the business life of the community.

It is thus seen that the most important service the bank renders the public is practically to multiply the money supply, and this service benefits the non-borrowing customer, for even the non-borrower's bank balance is nothing but bank credit, which has been transferred to him by the writing of a check. Probably the next most important service lies in receiving, as deposits from its customers for immediate credit, checks drawn on other banks, often in distant cities. The value of this collection service is little understood. It can be best realized by thinking out some other good method of converting these checks into immediate cash without using a bank for the purpose.

But the important economic function of a commercial bank is really that of a carrier. A bank extends credit to perhaps a cotton planter (speaks of it as loaning him money) by receiving the planter's note and entering the proceeds to his credit. If the planter uses part of it to pay for seed, he sends his check to the seed dealer, who is thereby enabled to pay off a loan at his own bank which he had previously made for the purpose of buying and carrying seed. If the planter

uses part of it to pay cotton pickers, he draws that out in bank notes, and that part of the amount becomes transformed from deposit credit into note credit, going out of existence as one and coming into existence as the other. The two are exactly the same thing in different forms. The bank notes are paid as wages to cotton pickers, who probably spend them at the store for groceries. They are then promptly deposited at the bank by the grocer to the credit of his account. They thus pass back into the bank and so out of circulation as note credit. Having been deposited by the grocer, they once more become deposit credit in the grocer's account.

The planter finally sells his cotton to some cotton buyer in another city and receives in payment a transfer of credit to him, perhaps by receiving a check, or perhaps by sending through for collection his own draft on the buyer with a cotton bill of lading attached to it. The planter, upon depositing the proceeds of this sale to his credit in his bank, draws against his balance a check in favor of his bank and pays his note. His note is returned to him and the credit, or deposit, which was originally created for him is thus liquidated, having served its purpose. In the meantime, the cotton buyer's bank has created a credit for him

(loaned him money) with which to buy and carry the cotton until he sells it to a manufacturer of cotton cloth. This credit will also be liquidated in turn when the manufacturer pays him for the cotton. But the manufacturer will pay him by obtaining credit from some bank that he regularly deals with and the manufacturer's bank will now carry the cotton while it is being made into cloth, and until it is sold to a wholesale drygoods house. As the manufactured cotton fabric passes to a wholesaler and then, later, to a retailer, the bank that serves each one of these will create for him credit with which to pay for it, and each credit will be wiped out again by a subsequent sale. The carriage of this cotton on bank credit will end when the retailer sells it to the final consumers, each of whom buys only a small amount and pays for it out of his earnings, which he did not have to borrow. In this manner the bank credit, originally created for the planter, has carried the cotton clear through to the consumer who finally pays it. All the credit needed was brought into existence at the required time and place and passed out of existence after it had served its purpose. The credit created by a commercial bank was necessary at every step. Existing entirely upon a foundation of faith and character and con-

fidence, it crumbles if these are shaken, and business suffers in consequence. In earlier years, under a more primitive banking system, our periodical breakdowns usually began with convulsions in the credit system.

CHAPTER V

BUSINESS CONSEQUENCES OF THE WAR

The war did three things to American business. The first of these is that it absorbed and wasted some tens of billions of our current and accumulated wealth in the form of labor and commodities and we are now poorer to that extent.

The broad economic fact is that the generation which conducts the war pays for it. Much has been said about placing the burden upon future generations; about financing the war entirely by issuing government bonds and allowing posterity to pay them. Posterity can only pay them to itself; there will be no one else present to receive the payment. Posterity will be both the debtor and the creditor. The Government is, of course, mere machinery. To be sure, the Government will levy taxes upon later generations to pay off the bonds, but these later generations will also own the bonds and so will receive their tax money back again in the form of bond payments. Not the same individuals, to be sure, but the same generation. Each individual's case is, of course, a

thing by itself; some men will pay taxes and others will own bonds, but of the people as a whole, these things are true.

The real cost of the war consists in simply the labor and material that were consumed and destroyed in conducting it. When the war is ended, these things are gone; the nation is that much poorer, and the war has thus been paid for. If we should thereupon at once destroy all of the war bonds that the United States Government has issued, the wealth of the nation would be no less. Certain individuals' fortunes, to be sure, would be lost, and again other individuals would escape a long subsequent burden of taxation, but the people of the United States, as a whole, would have lost nothing. A government debt is not a national asset. By issuing bonds, then, some of the people simply borrow from others, but considered as a whole, they simply owe money to themselves. The Government only keeps the books. Through future generations the Government will each year collect from the people a large sum in the form of taxes, for the purpose of paying it back again to the people as bondholders. This will affect individuals in proportion to their respective liability to taxation, and in proportion to the bonds they bought and kept. He, however, who saved dur-

ing the war and bought bonds with his savings, insured for his children that they should receive taxes instead of paying them.

Excepting the repairs to our plant, subsequently necessary, it is substantially true that we paid for the war, in labor and materials, as it progressed. The steel that peaceful industry would have fashioned into farm machinery or locomotives now encumbers battle fields. Copper that could have become wires for the transmission of electric power was virtually destroyed as shell casings. The labor that in peace would have turned these metals into things of value was instead employed in producing only ruins and wreckage.

Beside this actual destruction of current commodities and waste of labor we wasted our fixed capital by allowing deterioration of our plant. It was overdriven during the war and, through scarcity of labor and materials to repair it, it was allowed to run down in physical condition. For illustration, it is said that some such sum as a billion dollars must be spent upon our railways within a year to restore them to their former condition. To the average man this piece of news means little. He may be vaguely interested in their ability to get so much money. He may per-

haps resent their asking for it. To another man perhaps it signifies more and he is gratified because he sees that it will make active business in railway materials and equipment. But many of us forget that it is not enough that business shall be merely active; it ought also to be of the productive kind. This business of repairing a broken-down road is, to be sure, better than some kinds of business which are even less productive, such as manufacturing chewing gum or burying the dead, but it is not productive in the way it would be if the same labor and materials were put into the building of an entirely new line of railroad in some deserving locality. In the latter case, for a billion dollars spent in labor and material, we would be richer by the value of a new railroad. In the existing case, we only get for our billion dollars just the same railroads we had before the war. In other words, about half a million men who might otherwise devote the year to producing new wealth, must instead work at repairing the damage that the war did to our railway system. The same is true of our factories, our public utility systems, and our American business plant in general. For years we must take men away from productive labor to repair damage. We are poorer by the total of all this.

The second thing the war did to the highly complex machinery of American business was to throw it badly out of adjustment. It had been running smoothly and delivering an immense annual output of goods, because each part was doing just about all the other parts required of it. Coal was coming from the mines, ore from the ground, lumber from the forests, cotton from the fields, all in just about the right amount, and each of us found himself supplied at all times with the tools and materials for his particular work. The outbreak of war suddenly made all this systematic organization behave like an orderly nest of ants that someone had poked with a stick. Millions of men were taken away entirely or suddenly shifted to other work. Machinery was devoted to new purposes and sources of supply were interrupted everywhere. Naturally, there was a great loss of efficiency, which was partially, but not wholly, overcome by the extra zeal and energy which the war put into us.

For three years since the Armistice we have been putting the machinery back into adjustment again, but it is still not geared up to capacity production. It is not turning out new wealth in the form of goods in anything like the quantity it will

produce when fully readjusted. This is the second form of war injury.

The third serious thing the war did to us has to do with money (meaning bank credit). It became so plentiful and cheap that we became drunk upon it and are still suffering the consequences.

When we began to mobilize and equip an army the Government needed a fabulous amount and variety of things. These were the very same things we had been using in ordinary civil life, though perhaps made up in somewhat different form. The Government had not enough money wherewith to buy all these things and no time to raise it by taxation. So it had to issue bonds. It could not directly trade us bonds for things, so it had to sell us bonds for money and then give us back the money again for the things. A man who bought ten thousand dollars' worth of bonds generally borrowed the money at his bank on the bonds as security. In substance, he and the bank simply created ten thousand dollars in bank deposits by signing a note and having the same figures that were written on the note also written on the credit side of his deposit account at the bank. It was new money that did not exist before he signed the note. He at once transferred

his ten-thousand-dollar balance to the credit of the Government in payment for the bonds. We all did this for about two years and in that way created perhaps fifteen or twenty billion dollars of new bank deposits, and they mostly still exist as such. This amount of money (as we use the word) was created by the public, transferred to the Government in exchange for bonds, and then transferred back to the public again in payment for things.

It was not the best way to finance the war, and a few eminent economists told us so at the outset, but no one paid any attention to them, because the hard-headed business men said they were wrong and that we must have business as usual. They said if the people were expected to finance the war they must be permitted to make money, and in order to make money business must be kept good and therefore it was the unrestricted purchase of goods that should be encouraged; not the practice of economy. And so, for a long period it was our policy and belief that, at a time when the army needed everything, the civilian population could do the most good by buying and consuming everything they could in order that trade might be kept active. This should have deceived no one, but it did. It had deceived Eng-

land for a long time earlier in the war, to her almost irreparable injury. So we all agreed that the correct way to finance the war was to borrow money and let the next few generations help pay for it.

Consequently, when we had all borrowed the money and transferred it to the Government for bonds, we considered our duty done. The Government could take the money and buy what it pleased. The trouble was it had to buy the very things we also wanted. It had no time to waste in trying to conduct a cheap war. It had to act quickly without much regard for what it cost. It needed perhaps a quarter or a third of everything the country could produce, and needed it at once regardless of price. The army required food, clothes, shoes, metals, chemicals, vehicles, everything that we as individuals also needed. There was not enough produced to supply both the war requirements and the usual needs of the civilian population. We did not realize this. Accordingly, in the open market the Government and ourselves, in innocent ignorance of what we were doing, bid against one another for what there was and so we forced the prices steadily up.

It is plain that if the army required, say one-third of all the goods the country could produce,

then the civilian population must, through self-denial and economy, get along on the other two-thirds. If it had done so, we could have fought the war and been little or no poorer. As it was, in the struggle for goods between the Government and the civil population, we used up everything we could produce, everything we had in reserve, and really consumed a noticeable part of our plant itself. This was all done through the means of creating new money in vast amounts and spending it freely. The banks created this money by taking the notes of their customers secured by Government Bonds, but they soon had to begin carrying the notes to the Federal Reserve Banks for rediscount, so the burden of all this new bank credit was, of course, properly and necessarily made to rest on the gold reserves of the Federal Reserve Banks. When the war began, these gold reserves amounted to about eighty per cent of the liabilities of the reserve banks. But as we proceeded in financing the war by creating new money, the Federal Reserve Banks' liabilities were thus increased until the gold reserve amounted to only about forty per cent of the liabilities. This was ample, perhaps, if nothing more ever happened, but if we had more war or if we had to export a great amount of gold in payment

of adverse foreign trade balances, then there would be none too much. There was nothing alarming about a forty per cent reserve. The alarming thing was our steady and rapid movement towards a further reduction of it. For a movement in price inflation feeds upon itself. Each rise of prices necessitates creating more money and the money so created forces the prices higher. It would no more stop itself than would a sled going down hill, except in the same way. That is, not until the reserve ratio declined to a much lower percentage, and then we should all at once take fright, pass through a panic, and slowly recover our senses amid the ruins of our once splendid business organization.

Fortunately the governors of the Federal Reserve System realized that the further inflation of bank credit must be stopped. But the task was a delicate one. Banks were told they must not go further in creating deposits for customers by making loans to them, unless there existed a higher reason for it than the mere private advantage of the customer. On the other hand, it was important that the machinery for producing the essentials of life should not be slowed down for lack of credit. It was a difficult course to pursue. Further expansion must practically cease and yet

a sharp contraction would produce disaster. The attempt was made in the spring of 1920. The banks and the public fairly understood it and coöperated in it. In consequence, probably as near the desired result was accomplished as could have been hoped for.

The expansion of bank credit ceased. The rise of price inflation ceased simultaneously. Those who had been buying for a further speculative profit became timid. Orders were canceled. Many carrying large lines hastened to unload at slightly lowered prices and we were fairly launched upon a falling market. In the meantime, a similar but more extreme career of inflation in Japan had collapsed, accompanied by panic and widespread business disaster. The fall of prices, once unmistakably begun, was hastened and intensified by all but universal unwillingness to buy, based upon the belief that they would go still lower.

The collapse of prices which followed throughout 1920 and 1921, while ruinous to some, injurious to many, and demoralizing to everyone, was inevitable and far less ruinous than it would have been if further delayed. As an economic disturbance it would be classified as a business crisis without panic. Like every crisis, it is followed

by business depression, the cure for which is hard work, rigid economy, and the lapse of sufficient time for our vast complicated industrial machinery to work itself slowly back into the nice and accurate adjustment necessary to the large production of wealth. This cannot be complete until a more just and more stable relation is approached between the price of each commodity and all the others. Prices have not declined uniformly. Some have fallen too far and others not far enough. When time and economic law have brought these into proper adjustment, men can produce and trade in normal volume and not until then.

We have fought our war and as a nation we have paid for it. But we are a great deal poorer in consequence and we do not know it. We do not realize it because we have plenty of money and it is our custom to think of money as an end, whereas it is only one of the tools. The only thing from which American business is now suffering will be cured by hard work and rigid economy, and by nothing else. There is nothing serious permanently the matter with us. We have wasted a great deal of wealth; our railways are in bad order; our banks have not yet digested everything they had to eat during the war; our people have not gone

back to regular work yet and are under a kind of delusion that instead of becoming poor they have become rich, just because they do not understand what money is.

Notwithstanding these facts, it is difficult to believe that the industrial forces of a great nation which have for years been working so largely on war materials can be quickly and smoothly transformed and devoted to the production of permanent wealth and the comforts and necessaries of life. There is no doubt that it will be done in due course and that the world will enter upon its greatest era of progress and prosperity, in consequence of the lessons it has learned and the redoubled exertions it will make. But the intervening period of transformation from activities of war to those of peace will call for high intelligence and sustained confidence in employers and investors; for patience, moderation, self-restraint, and sound judgment among employees; for education among the leaders of their organizations, and for wise political leadership on the part of Government. This coöperation and control by our Government must not be of the exaggerated, paternal kind that renders private enterprise impotent and unnecessary. It must be strong enough to assist and protect us adequately against

unequal foreign competition backed by powerful foreign governments; intelligent enough to control and repress sternly illegitimate or dangerous tendencies, and yet give full encouragement to the development of personal resourcefulness, initiative and responsibility. It must be a controlling partner, not a parent.

We are being called upon to deal with vague suggestions for the radical reorganization of society, for indiscriminate government control, and for the rearrangment of industry by the introduction of new and experimental adjustments between capital and labor. With relation thereto, it may be said that the period we are now entering will contain problems and perplexities enough without adding these. They are questions fit to be dealt with by statesmen, after they shall have been allowed time to gather the lessons of the war and the final deliberate judgment of the world's best intelligence. The example of Russia would seem to carry adequate warning against hasty and radical attempts to alter the existing social and industrial structure during a situation so delicate.

We come, then, to the consideration of what we should do toward the restoration of ourselves and our country to a state of peaceful progress and

prosperity. We cannot be enriched by law, by quarreling among ourselves, or by the sudden application of powerful remedies newly discovered and loudly recommended by political quacks. We have got to win the prosperity of peace in just exactly the way we have won the victory of war: by individual hard work, plain living, the elimination of waste, and the fearless resumption of the enterprises of peace, with a firm confidence in a future from which every really serious menace has been removed. For this we have the talents, the resources, and the machinery which we applied to war, and the lessons we have learned besides. We have only to devote them to the production of wealth.

The real problem for America calls for solution by each individual. It is perhaps first of all a problem of eliminating waste—not merely the waste that throws away something valuable, but the waste of time uneconomically employed and misapplied labor and material; the unnecessary doing of something already being done adequately. These and other methods of a like nature are the new sources of national wealth to be gained through economy as well as through increased production. They point the way to private fortunes to be gained, or saved, by those who choose

to seize the opportunity. A private fortune, however large, accumulated in this way or by any other form of enlarged production or diminished waste is a public benefit. It is newly created wealth devoted to the public welfare. The pleasure of possessing and managing it, together with the moderate reward of living in somewhat greater comfort or luxury, has served as the motive to bring forward the best intelligence and talent of him who thereby created it. But he cannot consume the fortune or even a great income. His private consumption can at most be but a trifle of the wealth he has brought into existence or saved from waste and destruction. All the rest of it must go back into productive employment in industry. There is no other place it can go. It will in turn thus create new industry, create greater demand for labor, produce more of the comforts and necessaries of life, and cheapen them. The proprietor of the invested capital can eat or wear but little more than the rest of us. From the public point of veiw it does not matter much who owns the invested wealth of the country, so long as under adequate public control it is not injuriously used or dishonestly obtained. The important requirement is that there should be plenty of it. To insure the creation of plenty of

it, it should belong (with such moderate benefits as accompany it) to him who can create or save it, else there will be no motive to create and none created. And capital will be sorely needed to restore the enormous waste and destruction that have taken place and to provide the financial resources for which the world must now look largely to America.

CHAPTER VI

THE ABUSE OF OUR RAILWAYS

Nothing could better serve to demonstrate the blindness of American business than its treatment of its own railway system. This system, perhaps two hundred thousand miles of line, with cars and locomotives, buildings, city terminals, and other appurtenances for its convenient use, cost and is valued at about twenty billion dollars. Its worth to us is many times that sum, in the sense that if we were suddenly deprived of it nothing else would have any value worth mentioning. If it should cease operating, the two or three million people who are living on a barren rock known as New York City would either perish or flee for their lives (on foot, for they could even get no gasoline) to the farms of our western states where their food is produced. Every other large city would also become a mass of empty buildings. Every industry would cease for lack of something which is now being hauled to it regularly by railway. The farms would perish next for lack of

clothing, tools, machinery, and supplies of city origin, now coming regularly by railway. There could be a glut of food in one state and a famine in the next one.

The business of building and managing these railways was undertaken and is carried on by about two million men. A good many years ago, when the railroad business was young and inexperienced, those men made the customary mistakes of ignorance, as all the rest of us regularly do. They abused the great power that had fallen into their hands. They tyrannized over the rest of us when we traveled or shipped goods. They unjustly discriminated by overcharging some of us and favoring others, and they seemed at one time to be making too much money, which displeased us because it was they who were getting it instead of ourselves. As to this latter objection, we did not seem to realize that the only reason they put their time and material into the building of roads was because there was money in doing it and that if we forbade the profits no one would build more roads. Even the Government learned during the late war that the way to get a needed thing done quickly was to allow a profit in it. No one will work long at an unprofitable occupation. It is against public policy that anyone

should. These observations are just matters of industrial evolution and economic law.

But for these various reasons we, as a nation, began to hate our railroads and proceeded to punish them, not merely by just and wholesome regulation, but also intemperately, in pure anger, like a child kicking its toys. There was nothing we needed so much as more railroads and better ones, but we so terrified the builders that progress in building was greatly impeded; in fact, it practically ceased. We also starved the roads we had, by excessive regulation at the hands of numerous commissioners of limited vision. We acted toward our railroads as though they were public enemies, merely intruding to exasperate and rob us, instead of realizing that they were our own children.

In spite of all this mistreatment, they grew up and to-day are fairly near a complete system in size, but horribly emaciated. We need better transportation service from them more than we need anything from anybody, and yet, until we recently enacted the new railroad law, we had almost ruined them. We nearly lost the war because they broke down. They needed money to buy equipment and rails. We refused to loan it to them by buying bonds and stocks from them,

because their credit was not good. We kept them poor and their credit bad by denying them enough earnings, and then refused to loan them the needed capital because they were so poor, and then abused them because, being too poor to borrow the money necessary to equip themselves properly, they were unable to move things as fast as we needed them moved.

This is also the approximate history of the method we have employed in providing ourselves with other indispensable services, such as telephones and street cars. In all these services the vitally important thing to American business is that the service shall be dependable, abundant, and quick. If it can be cheap, too, so much the better, but any cheapening of it that at all seriously impairs its speed and reliability will cost American business, in indirect ways, many times the amount so saved. To impair our transportation service is merely to close the throttle upon all industry.

Probably we pay to the railways in a year, for transportation, a total of five or six billion dollars, in the form of pieces of paper, spoken of as money. The only use they can make of this paper is to pass it back to us again, directly or indirectly, in exchange for things a railroad needs. In

short, then, out of the forty or fifty billion dollars' worth of things which we produce every year (the railroads helping us to do it by doing all the hauling) we turn over about one-tenth, or say five billion dollars' worth, to the people who built and who operate the railways, for them to use in moving the trains and keeping up the road, and to live on while doing so. It is just possible that, now we are preparing, under the new rate schedules, to give them more things than heretofore, they will be able after a while to run more and faster and more dependable trains, handling more goods in less time, and in consequence of this our entire industrial plant may find itself turning over so much more smoothly and rapidly that its total annual output of goods may increase by even far more than we have now agreed to give the railways. We are thus very wisely repairing our nation's entire industrial plant at its weakest point.

We violated an economic law when we refused the railroads earnings enough to keep themselves in good repair and good credit; rich enough to build into, and thus develop, new territory and provide themselves with enough cars and engines to transport speedily the freight and passengers of American business. By our past fifty years of railroad policy we did to ourselves just about

what, for illustration, a very vast factory, using an interior tramway, would have done to itself by destroying its own tramway just to spite the tramway boss. Our slogan has been billions for chewing gum and joy rides and vanities, but not one cent for transportation. We could have spared the money; for so high an authority as the Secretary of the Treasury has recently estimated that we are now spending for luxuries in one year a sum equal to about the total value of our entire railway system.

CHAPTER VII

SPECULATORS AND MARKETS

Few institutions in our complicated business life appear to be so wholly misunderstood as the speculator. His office is to take upon himself the risks that the rest of us do not wish to assume. He is not any particular individual. He is almost all of us at one time or another. He is the man who deliberately assumes a particular risk because he wishes to. Any man who buys something because he thinks it is cheap at the moment, or who sells something because he thinks it is too high and can be repurchased again later for less, or who keeps something he has for sale because he thinks he can get more for it later, is a speculator at that particular time. He may be one only on very rare occasions when he thinks he has exceptionally correct judgment, or he may be one every day on some line of business of whose hazards he makes a special study. He is just a man who thinks his judgment is good at that particular moment on some particular question and is willing, if wrong, to stand a loss which would

otherwise have fallen on someone else who did not wish to risk a loss. He does this in the hope and expectation of making a profit, which would otherwise have gone to someone else who took no interest in large and doubtful speculative profits but was content with reasonable but certain commercial ones.

A miller is in the business of grinding wheat into flour for a legitimate commercial profit. He does not want to concern himself with fluctuations in the market price of wheat. In fact, they bother him. He wants only to make a fair reasonable profit for grinding, but he wants to be sure of that. A sudden rise in the price of wheat might wipe out his year's earnings or a drop in wheat at the right moment might yield him a large profit, but he does not wish to gamble in wheat. He would like to eliminate all such risks from his business. He obtains credit from his banker, with which to buy wheat, and pays the banker after he has sold the flour. The miller simply wants to make flour for a reasonable but sure profit. He does not wish to speculate in wheat. Moreover, if he did and his banker knew it, he would lose his credit. But a wholesale grocer gives him an order for flour, at an agreed price, for delivery several months later. Before the

miller can name the price he must know in advance what the wheat is going to cost him when he comes to buy it several months later—say in December—or else take the risk of its going up in the meantime. To know this with certainty he must have a contract with someone to deliver him the wheat in December at an agreed price. So he tells a broker on the Produce Exchange to buy him wheat for December delivery. It is called buying futures. He seems to be speculating, but is doing exactly the opposite. He has thus eliminated from his business all risks due to fluctuations in the wheat market. If wheat goes up before December it matters not to him. He has avoided a heavy loss, because he has a contract for his wheat at the price on which he calculated his flour bill. If he had not bought a future but had carried the risk himself and wheat had dropped he would, of course, have made a large speculative profit on the wheat in addition to his regular business profit, but he was content with certainties and, beside, his banker might find it out.

By this future contract some other man, through the Produce Exchange, bound himself to deliver the wheat to the miller next December at an agreed price. Maybe he did not have any

wheat, but gave thorough investigation and keen intelligence to a study of the probable crops of Argentina, and Canada, and the rest of the world, and felt sure that when December came the price of wheat would drop and he could buy it for delivery to the miller at a much lower price than the one named in his contract.

Other keen men were making the same investigations. They had time and often very elaborate and expensive facilities for doing so. It was to some extent their business. It was not the miller's, however. He had no interest in or facilities for it. He was a specialist in one thing and they in another. All these keen men foresaw the same thing, that wheat was probably going to drop before December, and probably all bid against one another (through different grain brokers on the Exchange) for the miller's contract. Thus they bid the price of grain down among themselves, so the miller finally got a fairly low competitive price. If they had foreseen a short crop they would have bid the price up instead of down.

Maybe they were just keen gamblers and never had any wheat nor expected ever to have any. Perhaps they just sold it short and intended to cover by buying it in again at a lower price. But even so, they made it possible for the miller to

grind flour in large amounts, on credit, with security to everyone, while they took the risks. They fulfilled a purpose without which business could not be carried on safely on reasonable margins of profit.

Cotton planters must usually sell their cotton, or most of it, as soon as baled, because they need the money, and professional cotton buyers buy it from them. These men are specialists, too. They buy and sell for a small but sure commercial profit. They dare not gamble in cotton. They know the various grades and staples; they are acquainted with the requirements of different manufacturers and know that each cotton spinner has use for only certain kinds of cotton. They also know the cotton growers and the kind of cotton they grow. They study the world markets and compete with one another, both in buying from the planter and in selling to the manufacturer.

The cotton crop is the most valuable of all crops. It may be worth a billion dollars or more per year and is nearly all bought upon credit created by banks for the purpose. The banks loan the cotton buyer nearly the full value of the cotton. If the cotton should drop much in price the buyer could not sell it for enough to pay the bank. He must protect himself against the risks of a

fluctuating market. He handles vast amounts on a very small but sure profit earned by his special training and his industry. He does not wish speculation to enter his business. He dare not be carrying a lot of cotton that is worth one price to-day and another one to-morrow. Therefore, immediately upon buying actual spot cotton, he hedges it by quickly selling a contract for the future delivery of the same number of bales through a broker on the Cotton Exchange. This is called a future. People who do not know what he is doing think he is gambling in cotton futures. He is in reality taking steps to avoid doing so. If the price of cotton drops while he is still carrying his spot cotton on borrowed money and he has to sell it to a spinner at a loss, he is not concerned, because cotton futures have, of course, also dropped in price and he makes a corresponding profit by now buying in his future contract at a lower price than he received when he sold it. These two transactions offset one another, so far as fluctuations in the cotton market are concerned, and it is these that the dealer wishes to avoid. He has simply made a small but reasonably sure commercial profit between the planter and the spinner, by virtue of his trained knowledge of cotton quality and of the spinner's requirements.

The reverse is true if cotton prices rise; his spot cotton shows a profit and his hedge sale a loss of a like amount. He is in a position where he can neither win nor lose by any fluctuations in the cotton market. If he did not hedge his cotton, but stood exposed to losses through fluctuations in the market, no banker would extend him credit and the cotton crop could not move, because it has to move on borrowed money.

The man who bought from him the cotton future on the Exchange may be a mere gambler, or he may be another kind of legitimate cotton dealer or spinner, who really bought it for use in that future month and wanted his price fixed long in advance, so he could know how to calculate the price at which he could sell his cotton goods, just as in the case of the flour miller.

Nothing can prevent fluctuations in the price of commodities, but this highly ingenious method has been found for keeping them out of the manufacturing business and distributive trade, so as to allow these businesses to be conducted with safety, on narrow margins of reasonably assured profit, and in the enjoyment of good bank credit. These market operations in futures conducted by business men for the purpose of hedging themselves against speculative risks are more or less

complicated, are carried on in strange terms of language, are transacted by comparatively few people, and are, therefore, but little understood by the American public. We are mostly of the belief that dealing in futures has no higher or more laudable purpose than shooting craps and our statesmen now and then plan to abolish the practice by law, until someone takes the trouble to explain to them the truth about it, whereupon the danger is averted until new statesmen are elected.

Then there are those who speculate in stocks. They make a business of studying the real value of stocks. They stand ready to buy any stock if it is offered on the market for less than they consider it worth, or to sell it if they consider the price too high and think they can buy it back again later on for less. In this latter case the speculator may not own a share of the stock, but if he thinks it is selling in the market at too high a price he will sell some of it short. He simply borrows the stock (giving security for its return) from someone who has it and sells it. Later on, when he thinks the price is low enough, he buys it in again and returns it to the man from whom he borrowed it. His act, in selling short, had a tendency to lower the price a little. His later act

in buying it when he thought it was low had a tendency to raise it a trifle. The further away from normal the price of a stock goes, either too high or too low, the greater becomes the number of men who are aware of the situation and try to make a profit by buying or selling it. If stocks are selling on the stock exchange just a shade below their then normal value, only a few men are interested in so small a difference. Therefore, only a few are buyers for a rise because the rise should be only a small one, anyway. These few are the men who are extra keen, watchful, and well informed. They are largely professional traders. In such circumstances we have what is called a narrow or professional market. But if the price falls very heavily many know it and many come into the market and give orders to brokers to buy stocks. These speculative buyers do not usually want the stocks to keep. It is not what is called investment buying. They are just speculators buying for a rise. They know the prices are too low. Their very buying forces them up. It is thus seen that the further the prices quoted on the Stock Exchange get away from the real value of the stocks, the greater is the number of speculators who come into the market and either buy or sell according as they be-

lieve the stocks too low or too high. The final result of their dealings is to exert constant pressure in forcing the market price of stocks towards their true value. The work of the speculator has in this way a constant tendency to steady values and prevent violent fluctuations in price. The speculators also furnish a ready market in which anyone can always sell or buy at any time anything he wishes to. If there were no speculators or speculative markets, publishing daily price quotations and rendering these services, the farmer would be compelled to keep his grain or cotton perhaps several months (unable in the meantime even to pay his employees) until he could get into communication with some manufacturer in a distant city who would buy it. Even then the farmer would not know what price he ought to receive, nor the manufacturer know what he ought to pay. If a holder of some railroad stock desired to sell it he would waste perhaps weeks in finding an investor who happened at that moment to want to buy any stock at all—much less any railroad stocks, or especially the stock of that particular railroad, and even then they might never agree upon the price.

The Stock Exchange provides a large room in which stock brokers meet every day, bringing

with them orders to buy and to sell, sent in to them by wire, by mail, or in person, from customers all over the world. In this room in New York alone, omitting all reference to like exchanges in other cities, often a million shares of stock and still more bonds are bought and sold every day between buyers and sellers, who never meet and do not even know or care to whom they sold or from whom they bought. Each gets what he wants through a broker, whose business is to deal with other brokers in executing orders. And in consequence the whole world learns through that day's evening paper the world's composite judgment of what those commodities and securities are worth that day. The same thing takes place in the Grain Exchange, the Cotton Exchange, the Coffee Exchange and, in less formal and highly organized ways, as to other commodities.

On these exchanges there are two kinds of transactions. The sellers who actually own the goods sell them there. The buyers who need them for actual use buy them there. The speculators are also there to keep the prices steady, by buying the excess that is offered in case a large excess forces the price down to where the speculator sees a bargain. The lower the price is forced down by excess offerings, the greater is the

number of speculators who come in and buy, until finally enough of them arrive to stop the price from going lower. In just the same way they prevent prices from going too high, by selling short.

Of course there are abuses connected with all this, just as there are abuses connected, for instance, with the practice of medicine. But the speculator is a most legitimate and indispensable part of our industrial organization. If we did not allow speculation by those who like it, we would all be unwittingly exposed to it against our desire. Under our existing system we can avoid risks and uncertainties by employing these specialists to assume them for us. If we put them out of business, as is often proposed by act of legislature, then each of us would be compelled to carry his own risks and hunt for his markets as best he could and it would seriously interfere with our regular business. We might just as sensibly propose to abolish insurance companies, who are also in the business of assuming risks, and let each of us assume his own fire hazards and death risks, and ship cargoes overseas at his own peril, or that of the bank which loaned money against the cargo.

CHAPTER VIII

GOOD AND BAD TIMES

PERHAPS the most striking phenomenon in American business life is its alternation between periods of prosperity and of distress.

A period of true prosperity exists when the American people are producing a maximum quantity of goods. This is true because to do so is the sole purpose for which business is carried on. It has no other end than to produce goods, in order that we may enjoy their consumption and use while producing more and while building additional machinery for producing still more. Naturally, then, we prosper when every man and every piece of machinery is working every day at full capacity. When that is happening, goods become abundant and incline to be cheaper. Everyone is able to buy what he normally wants in moderate abundance, being fully and constantly employed. There is no discontent except the natural desire of everyone to do still better; which is, of course, no evil, but a benefit—being the real

force which is back of all material human progress.

But our industrial life is capable of turning out so vast a quantity of goods only because we have organized it so highly. Organizing it consists in each man doing only the one thing for which he is best suited, and depending on all the others to do everything else for him. His dependence on others is absolute, and so is theirs on him. If someone fails the others are at once impeded. They may not know where the trouble started, or where to locate it, but supplies and services that have been coming regularly from the accustomed sources are no longer coming or are coming irregularly. When one stops, he stops the others, because they depended on him for something without which they cannot proceed.

When everyone is in his accustomed place, doing his full daily work, turning out the expected quantity of his particular product for others to use, then the whole organization operates smoothly at top speed; great wealth is produced for distribution among us and we prosper.

In a mechanism so complicated and so large that there can be no single guiding head to control and regulate it, trouble may begin anywhere or at any time. It may be a crop failure, a large

prolonged strike, the failure of some very important financial or industrial concern, or something else great enough to jar the entire country seriously. If not instantly corrected, the entire machine begins to slow down, and the output of wealth to diminish. If coal does not arrive from the mines, boilers cool and factories cease. If transportation lags through the pauperized and broken-down railroads, raw materials are delayed or perhaps coal again. If banks are in trouble, credit ceases to flow and all business stops. If the machine is running rather badly just then, anyhow, or is being overdriven at dangerous speed, and one of these things occurs, it is likely to produce very serious, and often prolonged business distress. And during the distress we do not know what or where the trouble is or what to do about it. It spreads so quickly through the entire country that each of us sees it in a different form and consequently attributes it to a different cause. No two of us are in exact agreement about it. No one can do anything and so we wait and work as best we can, feeling confident that good times will come again. Economic laws finally proceed to enforce themselves and we get back into gear again. It was said that the Allies were near defeat early in the war because shells were

not promptly forthcoming according to contract from American munition factories. The shells were required to fit gun barrels to a thousandth of an inch. This could not be accomplished without highly accurate gauges used in the manufacture and measurement of the shells. In filling such large orders, these gauges wore out very rapidly and could be obtained only from a certain few makers of instruments of great precision. For some perhaps minor reason the supply of these gauges failed, or was not adequate, and the whole world's future depended upon them without knowing it. The story may not be true, but it could easily have been, and it perfectly illustrates our dependence upon one another.

Anything that slows down any part of our industrial organization produces the immediate result of slowing down some other part, this in turn a third part, and so it all approaches a standstill. If it stopped we would about all perish. The nearer it comes to stopping, the more we suffer. This is what we call hard times or a business depression.

Progress in either direction of slowing down or of speeding up feeds upon itself. When breakdown or a delay occurs at any point, men become idle. They are out of employment; receiving no

wages they can buy nothing at retail stores and so retail trade declines. The retailer, of course, then buys less from the wholesale dealer, who in turn gives smaller orders or none at all to the factory, which consequently buys less raw material and fuel and lays off men who are not needed. As this results in fewer goods being moved, railway earnings and consequently railway purchases of material and employment of train men also decline. Business having fallen away, men are discharged in all of these lines of employment and their purchases from the retailer are still further diminished. The retailer thus sees a still further decline in trade and we are started around the circle a second time. Every decline of business at any point at once causes a further decline at another point. We continue steadily to produce less and less. Naturally, at the same time, we consume less from force of circumstances. We thus pass into, and eventually clear through, a period of business depression and great distress. It may last only a matter of months before improvement is discernible, or it may endure for years. Our total business activities, of course, do not cease. Regarded as a whole, they keep on running at perhaps ninety per cent of normal, for it is said that a variation of about ten per cent in

our total production measures about the distance between prosperity and business depression.

But in hard times there might easily take place a drop of far more than ten per cent in the amount of goods we consume. In other words, the demand for goods is subject to far greater fluctuation than the supply of them. In a period of depression we immensely reduce our consumption of goods, we waste less, and we work harder when work is obtainable. In consequence wealth is being gradually created faster than it is being consumed and it increases. In other words, new capital is being accumulated. It seeks employment and so new undertakings are begun. These employ men and require materials. The markets are at once stimulated and the entire national machine gains a little speed. While it was slowed down, the weak part that caused the breakdown in the first place was probably repaired. We are now emerging from the depressed period and business grows steadily better. Each resumption of activity causes a further one. Newly employed men spend their new earnings at retail shops. All trade becomes better and hence do also manufacturing and transportation. These once more call for more workmen and prosperity begins to feed upon itself, causing more pros-

perity. And then we feel free once more to buy and consume goods with liberality. Demands expand even more rapidly than supplies. Rather regardless of price, we buy what we want and bid against one another for it. We thus force prices higher and higher and the business situation becomes steadily more and more unsound and we consume faster than we produce. We undertake new enterprises that require much capital and credit. We think we may safely do this because prices are rising, and profits are easily made in everything. We borrow freely to buy anything, because on a rising market it can surely be sold at a profit and the debt so paid. We are inclined to speculate too freely. Vast credits are thus created and wealth is at the same time being rapidly consumed. The situation is very unsound. The machine is in a condition to be very easily thrown out of order and as soon as some disaster occurs of enough importance to derange the machinery again, we enter the next decline.

Many men carefully watch and study these tendencies. They do not go on unnoticed by everyone, though they do by most. There are, in America, several business organizations which do nothing but study the progress of these cycles by collecting statistical data, taking careful daily

measurements of business and interpreting what is going on. They can tell with great reliability what stage the country's business has reached in its progress towards prosperity or towards distress.

The more intelligent and watchful can thus learn that at the crest of prosperity danger is very near. They foresee falling markets, contraction of credit, business failures, reduced production, and unemployment, and they prepare for them. They sell instead of buying. They counsel others to sell. There are soon many sellers and few buyers, and so prices fall. As they fall, manufacturers stop producing goods which they know they could sell only at a loss. Business begins to decline, men are again out of employment, and progress toward depression is once more under way.

CHAPTER IX

INTERNATIONALISM

The American people have always regarded anything foreign with suspicion. Foreign political relations and our foreign commerce have been discussed more with garrulity than with understanding, and the periodic appearance of these two subjects during presidential campaigns has exposed them to an onslaught of oratory which has added but little to our knowledge. Under such circumstances, and remembering that until recently we have had little reason to participate actively in international affairs, it is not remarkable that our understanding of them is limited.

From the time of the discovery of this continent until the present, there has been but little necessity and no inclination for entrance into world affairs. The early settlers pushed westward from the Atlantic and turned their backs to Europe and the sea, and from that time the American people have devoted their efforts almost exclusively to the exploration and development of this continent.

The timber and mineral resources of the Great Lakes region, the vast and fertile area of the Mississippi watershed, and the semitropic south, with wealth in cotton and sugar cane, held the attention of the pioneer, and the middle of the last century saw the opening of the Pacific Slope, with new fields for settlement and exploration. During this long period the Americans were confronted with problems purely local. Living frequently at great distances from each other, and cut off from contact with but a few people, it would be surprising if the pioneers' thoughts had not been restricted simply to the events of their daily existence. What was occurring in Europe concerned them much less than the happenings in the nearest village, and the condition of the road leading there. They required but little, and that they secured for themselves.

Previous to its unfortunate collapse at the time of the Civil War, ship owning and operation flourished along the Atlantic and Gulf Coasts, but the shipping and trade of that time were conducted in a manner impossible to-day. The trade consisted largely of cargo lots of natural products, and there was not, as at present, a world-wide distribution of manufactured articles; and such trade as existed was conducted by a very small

body of men, out of the sight and understanding of the great bulk of the American people.

The greatest achievement during the nineteenth century was the evolution and perfection of the American railway system, but it was the physical work only which we did ourselves—the money with which to build the roads was furnished to a great extent by the British, French, and Dutch—or, if the idea of the payment and receipt of money is eliminated, we may say that Europe loaned us our railroads.

The original investment of European capital in America was the initial movement in an enormous international business transaction, which we have been fifty years in concluding. For that period of time we have enjoyed the use of a railway system which belonged largely to Europe, while Europe has retained certificates of ownership in the form of bonds and stocks. We paid the interest on the bonds as it fell due, the value of our exports exceeding the value of our imports by the amount of the interest, since all international payments must be made in goods (the dollar, pound, franc, or guilder being but convenient tokens for a certain quantity of any commodity). We continued to use the railroads and Europe to own them until the opening of the late war, but the extraordinary

requirements brought about by such extensive military operations could not be met in the ordinary way. The production of merchantable commodities diminished in Europe while her requirements increased, and to meet the latter situation we were asked to pay for our railroads. Our bonds were returned to us and in exchange we sent to Europe munitions of war and foodstuffs. Perhaps a clearer picture of what occurred may be obtained if the transaction is visualized without the intervention of time: Europe traded us railroads for munitions and food.

The same principle is in evidence in all international business. Barter did not cease as commerce increased, but the spirit of barter has been obscured by the use of money. As an illustration assume that I manufacture acetic acid, which is used in the production of rubber. Having plenty of acetic acid, I would send some to the rubber plantations in the Straits Settlements, in exchange for which I would be offered rubber, which I could not use. So the rubber growers would give me money, which would be a claim against the Straits Settlements not only for rubber but also for tin, spice, rattan, or any of their products; but if I did not want any of the products of the Straits and desired some glass bottles from

Belgium, I could trade my claims against the Straits for claims against Belgium, i. e., Belgian money, or francs. The man with whom I traded could then obtain what he wanted from the Straits. From the foregoing it may be seen that while the use of money has obscured it somewhat, barter is the basis of commerce.

The value of our imports must equal the value of our exports, and vice versa. Trade must balance, though an examination of the reports of the Department of Commerce would lead one to believe that it does not, which is deceptive. In pre-war times, America was one of the so-called "debtor" nations, or, in other words, our visible exports exceeded our visible imports; and by visible exports and imports I mean those which are shown in the Government's statistics. The excess in value of exports over imports represents the cost to us of the services which Europe performed for our account, and for which we have paid in the only way we can, which is payment in goods. These services which are performed for us we call "invisible" imports, and when accounted for as such demonstrate the equality of our incoming and outgoing trade. Invisible imports consist of freight and passage money paid foreign steamship owners for carrying our goods and our-

selves, premiums paid foreign underwriters for insuring our cargoes, interest on American securities held abroad, and the money spent by American travelers in foreign lands.

To facilitate the exchange and distribution of commodities, there is money, but as each nation employs a different monetary system special organizations have been perfected to deal in foreign exchange, or the money of the different countries. Exchange, as commonly spoken of, means the value of the money of one country expressed in the money of another. Sterling (London) exchange is quoted at par as about $4.86, which means that the value of the English Pound Sterling, expressed in United States currency, equals $4.86.

Assume that the United States was selling a great volume of products, raw and manufactured, to England, much more, say, than she was buying from the latter. The seller in this country would require that payment be made in dollars. Consequently, the buyer in Britain would go to an exchange bank to purchase dollars wherewith to pay. In exchange for £1, he would receive (at par) a draft for $4.86 against the London bank's balance in New York, or a so-called telegraphic transfer of the money could be made. If there

were many Britishers wishing to buy dollar drafts, the demand for them would be greater than the supply. Therefore, the dollar would sell at a premium and for £1 only $4.85, or less, might be given. This would have a tendency not only to check the purchase of American goods by Britain, but also to stimulate the purchase of British goods by Americans, since goods to the value of £1 could be bought in England for $4.85 (a saving of a cent per Pound). The result would be that Britain would curtail her American purchases, while America would increase her British purchases, until a balance would be reached and exchange would be gradually forced back to par.

It must be borne in mind that the present disorganized state of the European exchange is due partly to the presence of abnormal factors such as repeated violation of economic law, inflation, gold embargoes, depreciated and inconvertible paper currencies, and so forth, and, in so abnormal a state of affairs as now exists, no attempt should be made to account for it on the basis of trade inequality alone.

Sooner or later all international debts must be paid in goods. Otherwise, they cannot be paid. The European countries owe the United States greatly in excess of ten billion dollars. They

are not in a position to pay the debt, because they cannot produce the goods with which to pay it. Their industries are hampered by a lack of capital with which to buy new equipment and material upon which to work. Since comparatively little ready money is to be had in their own countries, they look to America for it, and by failing to extend further credit (in the form of machinery and raw materials) to Europe, we would be not only preventing the payment of the original debt, but also indefinitely prolonging the present wretched state of European affairs. Clearly, then, the only way out is to purchase the bonds of the foreign governments and corporations, in order that they may employ the proceeds in the purchase of the needed materials and machines.

The large interdependence of the nations, one upon the other, was very forcibly illustrated during the recent war. The exasperation evidenced in the textile industries, and so among clothiers and housewives, due to their inability to secure German dyes, may be easily recalled, and other instances were only too numerous. One can imagine the annoyance which would be felt were America cut off from the tropics and consequently unable to secure coffee, tea, chocolate, spices, rubber, tin, lac, jute, edible oils, and other products

quite indispensable to us and yet quite impossible for us to produce ourselves. Without rubber, for example, fires could be extinguished only with great difficulty, since there would be no adequate hose; surgery would be greatly handicapped; motoring would be no pleasure; the proper insulation of electric wiring would be impossible; and ballooning would become very precarious. Were England absolutely isolated from the rest of the world, starvation would be prevalent there in less than one month. England imports four-fifths of her foodstuffs and pays for them with coal, manufactured articles, and various commercial services. Her life depends upon her merchantmen and the freedom of the seas.

Foreign commerce is not mysterious, except in the persistence with which it is regarded as such. For the purposes of trade the nations of the world are as one nation. Geographically, politically, linguistically, and in many other ways, the surface of the earth may be divided, but commercially no country is unique; commercially the world is a unit. The United States does not look to China for a government or a language or a system of weights and measures, but for camphor, silk, tea, hair nets, soya bean oil, etc. The United States depends upon China in the same way that

Texas depends upon Wisconsin—from the standpoint of products only. Trade between New England and the Gulf States is not called foreign trade, yet it is quite as foreign as trade between New England and Canada. In the former instance many hundreds of miles intervene; in the latter it is but a matter of tens of miles. The products of the world are international—there is, and has been, a commercial league of nations which cannot be abolished.

In engaging in trade, in the actual practice of it by importers and exporters, the world is divided for the sake of convenience into business areas. That this is done should not be taken as a refutation of the previous paragraph. These divisions bear the same relation to world trade as the business divisions of a city might bear to that city's trade. They in no way destroy its unity, but are designed for convenience and efficiency solely, and take into consideration such factors as transportation routes, languages, laws, products, populations, nature of governments, climatic conditions, systems of money and weights and measures, business customs, purchasing and productive power of the peoples, and other factors which serve to connect or disconnect districts. Many of the confused and erroneous ideas concerning

world trade may be done away with if the conception can be grasped that trade between the rest of the world and one or all of the United States is conducted in precisely the same manner and dependent upon the same economic laws as trade between these states themselves.

Ships are the instruments by which water-borne commerce is carried from port to port. They are either liners operating with a scheduled run over a fixed route, or tramps taking cargo for any port if offered in sufficient quantity, or industrial carriers for the sole use of the corporation to which they belong, and not receiving general cargo from the shipping public. Since the trade of the world increases from year to year, at intervals ocean freight rates rise, because of the increased demand for space aboard ships. This encourages the building of new ships and the formation of steamship companies. Sufficient ships are usually built to exceed demand, and then the price of ships and ocean freight rates decline. There follows a period of depression, relieved only by the retirement or loss of vessels and the gradual increase in the volume of commerce. Ship operation is governed by economic law, quite as all other business is.

Without the uninterrupted continuance of our

trade with foreign countries, we could not hope to continue our own prosperous existence, and to suppose that we could abandon the crippled nations who are our neighbors and suffer no evil consequences thereby, is the veriest nonsense. The people of foreign lands are to us as fellow workmen, and whether we work with them in the same factory or in widely separated countries, makes no difference. We are all employed together in the performance of the world's work. If several of our most efficient fellow workmen have their tools destroyed and are themselves weakened, how shall the world's work go forward? If they temporarily lack tools and materials, what could be more logical than to lend to them a part of our own, so that the great task might be undelayed? These temporarily disabled workmen have skill, intelligence, character, and industry, and our progress and the world's progress will best be advanced by lending them the tools and material which they need; particularly as they are already heavily in our debt and otherwise would undoubtedly be unable to pay. There is nothing more to the question of the extension of credit to foreign countries. The world in general, and in particular America, will best be served through the lending of capital by localities

which can spare it the best to those localities which need it the most, regardless of the geographical position of either region.

In deciding with whom we shall trade, we are governed rather largely by our sentiments. To deal with our friends is preferable to dealing with people for whom we have no feelings whatsoever, or perhaps even dislike or distrust. Having confidence in our friends, we turn more frequently to them for our requirements than to strangers; and while we have recognized and capitalized this phenomenon in our dealings with each other, we have failed almost completely to observe that it may be quite as effectively applied to dealings with foreigners, an oversight which has cost us probably many millions of dollars.

Our competitors for many valuable markets, such as Latin America and the Orient, have never neglected the cultivation of their prospective customers, whether by learning their language, adopting their customs, or marrying their daughters; and as a result American agents have frequently knocked vainly on the door to the office while the proprietor danced or drank in the company of the Germans or British. The Germans, in particular, but all Europeans as well, have always made a point of becoming as nearly as pos-

sible like the man with whom they desire to trade, thus reducing friction to a minimum. In contrast to this is our own policy, which, with few exceptions, has been one of indifference or contempt, caused, no doubt, by arrogance and ignorance. That such should have been our foreign commercial policy is unfortunate, and since our internal trade is not conducted in such a way, one is forced to the conclusion that it is only because we have failed to study the foreigner that we mistrust and, perhaps, pity him. In considering the people of other countries, we contrast them too much with ourselves, as if we were an international standard of some sort; and the contrast is almost invariably made with superficialities.

The British drive their vehicles on the "wrong" side of the street; but what about ourselves from their standpoint? Orientals feed themselves with sticks, but they probably regard as curious the small metallic implements with which we eat. But these are merely surface differences, and do not merit the time we devote to being annoyed by them. The British, for example, will be found to be a delightful, honest, courageous, and sober people, if we can forget that they are superficially different from ourselves. We have built a barricade of trivial comparisons between ourselves and

the rest of the world, behind which we congratulate ourselves on being not as other men, and until this is replaced by a healthier receptivity to foreign ideas and a more generous consideration of foreign activities, we shall find ourselves seriously handicapped in all international negotiations.

CHAPTER X

EDUCATION

It is characteristic of the American mind to love the simple, direct, and practical way of doing things. Unlike Europeans, who seem to be more thorough, we do not like the slow, patient, toilsome investigation of any subject. The American mind seeks a simple, direct, and easily understood explanation of any problem, and an answer of that kind always satisfies us if it seems plausible. We have neither time nor patience for long, laborious, and painstaking studies. If we ask why business is bad this year and are told it is because this is a presidential year, the answer satisfies us because it is simple and easily understood. There has never been any truth in it (except in one or two presidential campaigns such as the one that threatened our entire monetary system) but, being simple and plausible, we would rather accept it and pass on to something else than listen to a long and highly involved analysis of a difficult and complicated subject.

This is our national habit about everything. In educating our young, we take the simple course that disposes of the whole task at once. We send them to college. The decision is made in a day. They go. The problem is solved and we pass on to other matters. It is just part of our highly developed system of specialization in everything. Education is supplied to us by educators at colleges. We buy some for our young just as we buy clothes. The universities furnish a standardized, factory-made article, turned out, like Ford motor cars, on the basis of quantity production. Like the Ford car, it is an excellent thing but by no means the best. A Rolls Royce quality of education is obtainable. But the other make is the only kind most of us take the trouble to know anything about. When we speak of education, we automatically say college education. It is our national conception of the only way to obtain one. It would greatly shock the average American parent to be told that his highest duty in the world is to devote laborious and fatiguing years to developing his child's intellect and understanding; and to impart to it all his own knowledge and all of other people's that he can assist the child in obtaining. It is the one occupation of parents that should take precedence of everything else.

It has been pointedly said that if a boy is not an educated boy at the time he enters college, he will probably never become one. College or university training is of almost priceless value, but it is no more than part of an education, and perhaps not the most important part. It can, moreover, be obtained outside of these institutions and, under favorable conditions, can be better done in proportion to the time employed. And yet we offer the excuse of having been denied a college education to explain and justify intellectual poverty. It is a shocking national confession of incompetence.

Probably the highest stimulant and aid to education is the companionship of intellectual people. Association with them creates a desire for knowledge and understanding, and it points the way to the sources from which these may be obtained. It is but poorly supplied by the companionship of the nursemaid. There is almost no discovery in the whole domain of knowledge that ever died with the discoverer. It has all been reduced to writing and preserved in books. These may even be had for nothing through the public libraries. Free advice regarding them is even furnished. To be sure, there is among these books much rubbish; some of it merely harmless and some injuri-

ous. The first requirement, then, is to escape positive injury by avoiding the injurious; to economize time by also avoiding the merely worthless; and to concentrate one's attention upon the remainder which is of value. This is the first task. It is the most difficult part of the whole undertaking. It can be done only through obtaining sound advice, guidance, and suggestion, and it furnishes the reason for saying that the greatest aid to education is found in the companionship of those already possessing superior education and high intellectual development.

Careful and discriminating selection of books rests upon the same principle that underlies advertising. The principle of advertising seems to be that if an idea once enters the human mind it will make an impression that remains there, especially if it enters several times and deepens the impression each time. The source from which the idea came is seldom remembered. As a nation, we firmly believe that chewing gum aids digestion. We are not at all sure whether we were told it by physicians or read it upon billboards, but we believe it. It is part of our knowledge. Our entire knowledge is full of these impressions. They may be obtained from respectable sources fully worthy of confidence, and so may be of

value; or they may be most injurious and misleading if they are the work of ignorance.

Naturally, then, one should never permit his mind to receive untrustworthy information if he can prevent it. It is not enough that someone has written a book on a given subject. Before one allows himself to read it, he should first ascertain, if possible, whether the author had a right to be heard on that subject. We should not carry this to the length of insisting that the author's views agree with our own. Our impressions already existing on the subject may be wholly wrong (probably are) and the author may erase them for us and make correct ones. But before reading his book we should use every effort to ascertain that he really is a respectable authority on the subject. By this method we exclude from the mind much misinformation and include only knowledge that is probably reliable, and the result of this policy, pursued over a period of years, must inevitably lead to broad understanding, correct judgment, and accurate knowledge.

It is said that every year about six hundred newspapers and two books enter the average American home. A daily newspaper, containing news hurriedly gathered from all over the world upon a thousand subjects, with no time for veri-

fication, printed and distributed within a few hours, by men who, however brilliant, could make no pretense to accurately verified correctness upon all the subjects it must print news about, should naturally not be one's main source of knowledge. It can be safely read as to market quotations, or as to who was nominated for office, or as to almost any occurrence not at all likely to have been misunderstood by the young reporter who gathered the item and hurriedly wrote it in the scant time allowed him. But certainly one would not permit his mind to absorb and retain the impressions that would become his if he read a newspaper account of some new discovery in medicine or astronomy, because it is almost certain that the reporter who got the story was just a bright young man who knew nothing at all about the subject and did not even know the meaning of the terms that were used in telling him about it. It is the duty of a newspaper, of course, to serve up everything new as best it can consistently with speed, which is our first demand upon it. But it is not our duty to expect universal learning and a liberal education from the daily press or, for somewhat analogous reasons, from indiscriminate reading of popular magazines. And these seem to be the main sources of the supply of knowledge to

the American people, so far as they obtain knowledge by reading at all.

We complain of and abuse our newspapers largely because we misunderstand and misapply them. At the cost of a few pennies to us they furnish the news of the day from the entire world, and the governing considerations are compelled to be brevity and speed. To expect thoroughness and reliability as well would be preposterous, and yet, in pure mental indolence, we make the newspaper our main source of knowledge because it is so convenient, interesting, and cheap. The modern newspaper is possibly the most marvelous of our achievements, but we do ourselves great injury by reading it in a spirit or purpose for which it never was designed. The harm it does us seems in no way seriously chargeable to the paper but to misunderstanding of it. The harm could be mainly avoided if we would read it, much as it is written, realizing that it is only the world's gossip, probably no more reliable than what we hear and repeat to one another by word of mouth. It is hurriedly gathered and we will not wait for it to be verified or corrected. The editors, in selecting and serving it to us, are probably somewhat influenced by their editorial views and policies, or they would not be human, and being much like the

rest of us, they probably, in occasional instances, are influenced by at least reasonable consideration for their advertising patrons, without whom they could not live. If they did not also color it somewhat to make it interesting, we would not buy it. These things are all practical and necessary. Experience has proved that we do not want and will not, as yet, support newspapers of any materially different kind. They are pricelessly valuable as newspapers but we should not make them (as we are doing) almost our exclusive source of information and opinion and expect thereby to educate ourselves into any very high degree of intellectual attainment.

The highest duty of management in business is to educate, not merely the manager himself but those below him; and it will not be accomplished by reading the trade organ of that particular industry. Successful management of large organizations consists mainly in the employment of men who are more than merely competent to their several tasks. Men are competent and valuable not according to what they have been or because of previous experience, but rather according to what they may become and thereafter accomplish by possessing highly developed intellectual power and applying it under the inspiring leadership,

suggestion, and advice of a real manager. The most valuable man probably will not be the one who has been the most drilled in routine experience. He will be the one who possesses extraordinary qualities. The highest of these is cultivated intelligence. In its broad sense it, of course, includes character. It may be encouraged and developed anywhere—in the office or in the ranks of labor. The able and successful manager is the man who can recognize it when he sees it; who can encourage, develop, and further educate it; who is big enough not to be jealous of it or to suppress it. If it attains to a superiority that finally supersedes and displaces him, then his management has been perfect, justice has been done, and the highest purposes of organized society have been served.

On the other hand, excepting for occasional instances of unmerited injustice, poverty and failure are Nature's gift to ignorance. It is undeniably within the power of almost any American, who has the desire and the determination, so to cultivate his mind and understanding, by elevating association and by study, as almost certainly to compel his own advancement. The distance he can go will be limited only by his own fitness for the performance of higher tasks and better

paid ones. If his employer does not allot them to him, some other wiser, and therefore more successful, employer will, and the more conspicuously he merits it the sooner it will occur. The progress is often very slow, but it is fairly sure. In any event, it is the only road there is. Few even start upon it, but remain, in sodden and indifferent incompetence, where they began, blaming the world and an organized society which they consider has enslaved them. It is mainly a self-imposed slavery.

Probably the most eloquent advocate of freedom, and foe of oppression, that America ever produced uttered the just judgment: "There is no Slavery but Ignorance; Liberty is the child of Intelligence."